

Finance Committee Meeting

October 8, 2001

| Committee Members |

Mr. Herbert S. Winokur, Jr., Chairman
Mr. Robert A. Belfer
Mr. Norman P. Blake, Jr.
Mr. Ronnie C. Chan
Mr. Paulo V. Ferraz Pereira
Mr. Frank Savage

| CONFIDENTIAL |



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Endless possibilities.™

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Herbert S. Winokur, Jr., Chairman
Robert A. Belfer
Norman P. Blake, Jr.
Ronnie C. Chan
Paulo V. Ferraz Pereira
Frank Savage

AGENDA

Meeting of the Finance Committee of the Board of Directors of Enron Corp.

**4:00 p.m. (CDT), October 8, 2001
50th Floor Boardroom, Enron Building
Houston, Texas**

		Page
✓ 1. Approval of August 13, 2001 Finance Committee Minutes	Mr. Winokur	1-1
✓ 2. Chief Financial Officer Report	Mr. Fastow	2-1
✓ 3. Treasurer Report	Mr. Glisan	3-1
4. Chief Risk Officer Report	Mr. Buy	4-1
Quarterly Risk Update		
- Audit & Compliance and Finance Committee Roles		4-2
- Trade Credit Update		4-4
- Market Risk Update		4-15
- Post Transaction Reviews		4-26
5. Projects and Amendments		5-1
A) Revision to the Risk Management Policy	Mr. Buy	5A-1
- Approve for Recommendation to the Board		
B) Project Southwood	Mr. McMahon	5B-1
- Approve for Recommendation to the Board		
6. Other Business		6-1
7. Adjourn		7-1



See Addendum for Deal Approval Sheets approved between Board meetings

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Aqer'ja lten: 1

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Enron Corp.
Finance Committee Minutes
from August 13, 2001 meeting

1-1

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EXH064-00006

DRAFT

**MINUTES
MEETING OF THE FINANCE COMMITTEE
OF THE BOARD OF DIRECTORS
ENRON CORP.
AUGUST 13, 2001**

Minutes of a meeting of the Finance Committee ("Committee") of the Board of Directors of Enron Corp. ("Company"), noticed to begin at 5:00 p.m. C.D.T., but actually begun at 5:50 p.m., C.D.T., at the Enron Building in Houston, Texas.

All of the Committee members were present as follows:

Mr. Herbert S. Winokur, Jr., Chairman
Mr. Robert A. Belfer
Mr. Norman P. Blake, Jr.
Mr. Ronnie C. Chan
Mr. Paulo V. Ferraz Pereira
Mr. Frank Savage

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Directors John H. Duncan and Kenneth L. Lay, Messrs. William S. Bradford, Richard B. Buy, Richard A. Causey, Timothy A. DeSpain, Andrew S. Fastow, Ben F. Glisan, Jr., David G. Gorte, Mark E. Koenig, and Theodore R. Murphy, and Ms. Rebecca C. Carter, all of the Company or affiliates thereof, also attended the meeting. Director Jeffrey K. Skilling and Mr. Richard N. Foster, of McKinsey & Company, Inc, joined the meeting in progress as noted below.

The Chairman, Mr. Winokur, presided at the meeting, and the Secretary, Ms. Carter, recorded the proceedings.

Mr. Winokur called the meeting to order, noted that a draft of the minutes of the meeting of the Committee held on April 30, 2001 had been distributed to the Committee members, and called for any corrections or additions. There being none, upon motion duly made by Mr. Savage, seconded by Mr. Chan, and carried, the minutes of the meeting of the Committee held on April 30, 2001 were approved as distributed.

Mr. Winokur called upon Mr. Fastow to present the Chief Financial Officer's report, a copy of which is filed with the records of the meeting.

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Mr. Fastow discussed total return swaps that had been completed in June and July and noted that the ending balance shown in the presentation materials did not reflect recent activity, which had led to an ending balance of zero. He also reviewed recent treasury stock purchase activity. He then presented a chart depicting the Company's interest rate exposure in different areas and noted the dollar amounts at fixed and at floating interest rates. He stated that the chart now reflected all elements of the balance sheet, and while the overall amount had increased, the fixed-floating ratio remained fairly constant. He then discussed other asset monetizations.

Mr. Fastow then noted that the Company was diversifying its funding sources and compared the percentage of funding the Company had received from banks, U.S. capital markets, and non-U.S. capital markets over the last three and one-half years. He then commented on the Company's liquidity and net margin activity.

Messrs. Foster and Skilling joined the meeting.

Mr. Fastow then presented a summary of the status of asset dispositions. He stated that the new accounting rules relating to goodwill could impact the Company's debt to total capital ratio and commented that the Company would be closely monitoring the sale of assets and the impact on the ratio.

Mr. Winokur called upon Mr. Glisan to present the Treasurer Report, a copy of which is filed with the records of the meeting. Mr. Glisan reviewed the Company's active letters of credit and discussed the changes since year end. He presented the Company's guarantee portfolio as of June 30, 2001 and noted that guarantees continued to increase due to the significant increase in activity by the Wholesale group. He then presented the liquidity forecast and commented on the sources and uses of funds. He reviewed the Company's key financial ratios and noted that the Company was on target to meet the year end goals. He then discussed the Company's ratings by the rating agencies and provided comments on the views of each of the agencies.

Mr. Winokur called upon Mr. Buy to present the Chief Risk Officer's report, a copy of which is filed with the records of the meeting. Mr. Buy stated that he would only be reviewing the overall portfolio summary and that he would be available to answer any questions on the other material provided in the report. He stated that the Risk Assessment and Control group had expanded the portfolio summary to include additional

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international assets. He then reviewed the assets in each of the four performance categories, comprised of exceeding expectations, meeting expectations, below expectations, and troubled. Mr. Skilling joined him in answering questions from the Board regarding the assets in the troubled category.

Mr. Winokur called upon Mr. Glisan to discuss a proposed resolution relating to brokerage account authorizations. Mr. Glisan discussed the proposed resolution and following a discussion, upon motion duly made by Mr. Savage, seconded by Mr. Ferraz Pereira, and carried, the proposed resolution relating to brokerage account authorizations, as presented at the meeting, was approved for recommendation to the Board.

There being no further business to come before the Committee, the meeting was adjourned at 6:20 p.m. C.D.T.

Secretary

APPROVED:

Chairman

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Agenda item 2

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Enron Corp.

Chief Financial Officer Report October 8, 2001

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EXH064-00011

Finance Issues

- **Enron Stock Activity**
- **Interest Rate Exposure**
- **Liquidity – Margin Activity**
- **Finance Related Asset Sales**
- **Outstanding Financings and Debt**
- **Summary Asset Dispositions**
- **Restructurings**

Enron Stock Activity

Stock Trading Activity - MTM

Description	Shares (000)	Avg Price	Qtr P&L (000)
Opening Balance	-	-	-
Total Return Swaps	400	\$37.95	(\$5,154)
Ending Balance	400		

EGF Equity Position Limits	V@R	Notional open
Limit (\$MM)	\$10.00	\$300.00
Current position (\$MM)	\$0.38	\$11.32
-Position limits exclude ENA position which is reflected in ENA equity book position report		
-Includes 60% of JEDI if an open position		

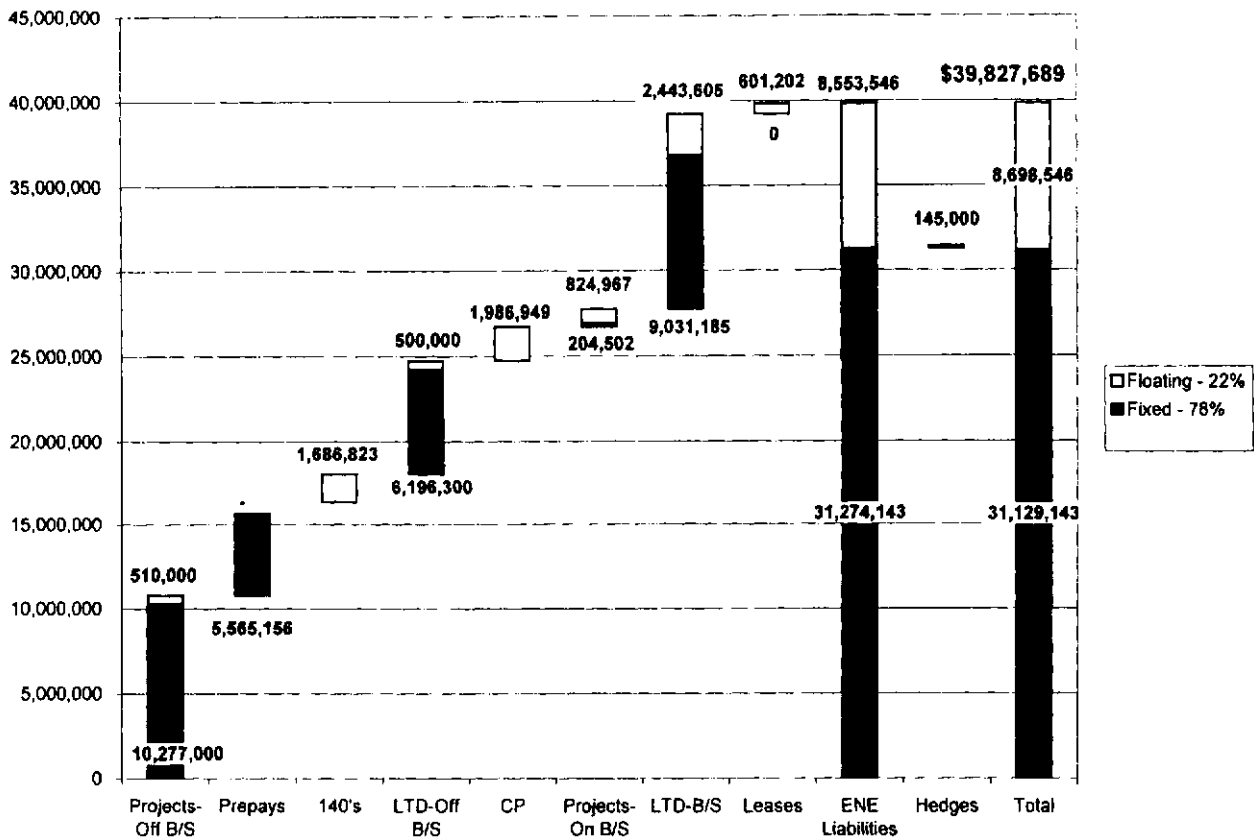
Stock Purchase Activity (Treasury)

Description	Shares (000)	Avg Price	Amount (000)
Opening Balance	577		
Repurchases	7,079	\$78.21	\$553,662
Other Activity*	(3,646)		
Ending Balance	4,010		

Authorization, Subject to Jim Derrick's approval	20,000,000
Activity	7,078,501

* Includes Stock Option Exercises, Stock Option Swaps (Non-Qualified), and other miscellaneous

Interest Rate Exposure



Notes:

1. Current CP Balance of \$1.987 MM represents 23% of floating rate debt.
2. EGF goal of 80/20 fix/flt composition.

Liquidity – Margin Activity

as of September 26, 2001

Current Liquidity (\$MM)

	<i>Normal Market (P50)</i>	<i>Disaster Market (P99)</i>
Cash & ST Lines	1,524	1,524
Inventory	1,134	
PRM Asset	300	
Net AR/AP	3,242	
Debt Shelf	1,000	
Equity Shelf	375	
Operational CF	(50)	(50)
Whitewing Vehicle Capacity	160	160
Total	7,685	1,634

Board Approved Liquidity Factor

Margin 10 day Metric	260	836
Actual Coverage Factor	29.6	2.0
Required Coverage Factor	3.0	1.5

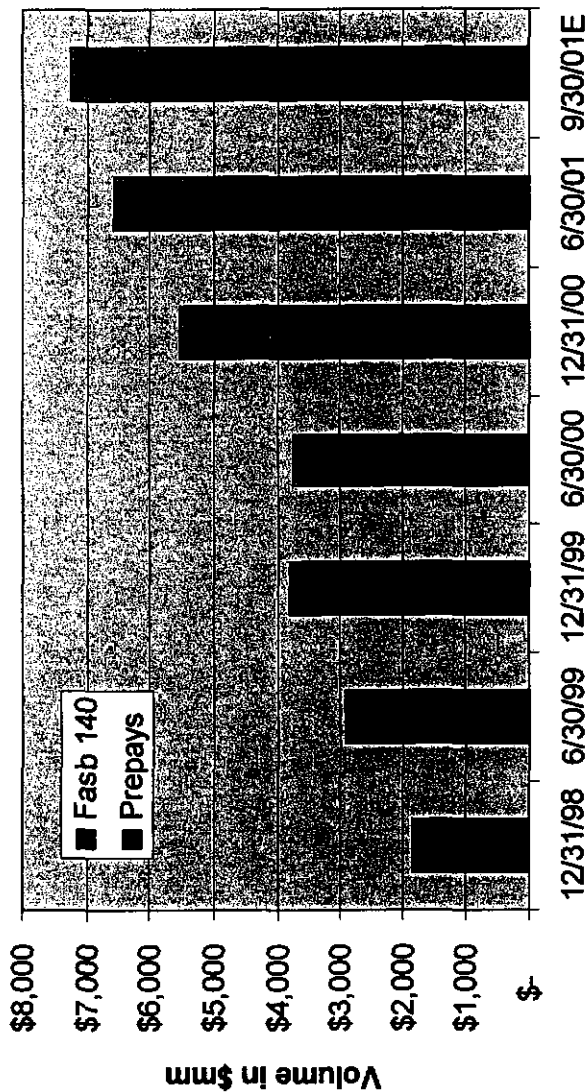
Liquidity Factor w/ largest Historical Monthly Margin Out

Max Monthly Margin Out	996	996
Actual Coverage Factor	7.7	1.6

Finance Related Asset Sales

Prepays and 140 Sales (\$MM)

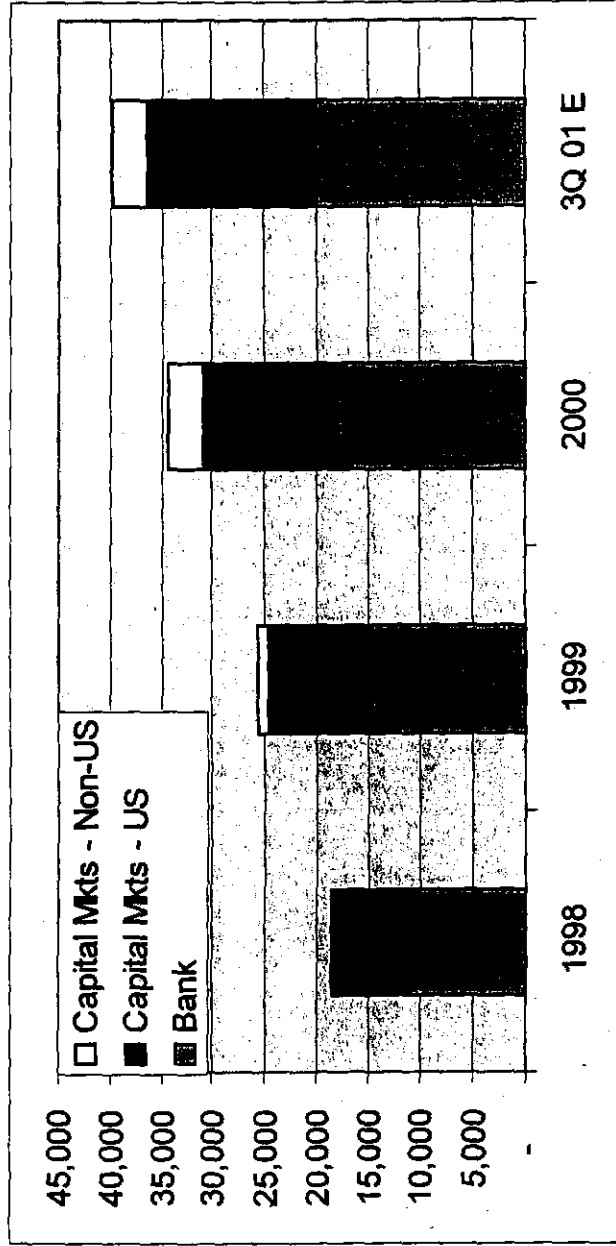
	12/31/98	6/30/99	12/31/99	6/30/00	12/31/00	6/30/01	9/30/01E
Prepays	\$ 1,258	\$ 2,239	\$ 2,489	\$ 2,962	\$ 4,016	\$ 5,031	\$ 5,565
Fasb 140	\$ 573	\$ 683	\$ 1,316	\$ 772	\$ 1,521	\$ 1,533	\$ 1,687
	\$ 1,831	\$ 2,922	\$ 3,805	\$ 3,734	\$ 5,537	\$ 6,564	\$ 7,252



Volume

- 1) Lick-like instructions
 - 2) FAS 140's (125s) bought from earnings in non-FV assets.
- Volume - 'large'*

Outstanding Financings and Debt (\$MM)



	1998		1999		2000		3Q '01 E	
	Year End	% of	Year End	% of	Year End	% of	Quarter End	% of
Bank	Outstanding	Total	Outstanding	Total	Outstanding	Total	Outstanding	Total
Cap Mkt - US	11,330	61%	14,453	56%	17,933	52%	19,961	50%
Cap Mkt - Non US	7,229	39%	10,224	40%	12,897	38%	16,390	41%
	-	0%	1,037	4%	3,550	10%	3,477	9%
Total	\$ 18,559	100%	\$ 25,714	100%	\$ 34,380	100%	\$ 39,828	100%

Summary Asset Disposition Status

(\$ in millions)

Disposition Status	Number of Assets	Book Value	
		On B/S	Off B/S
Sold	30	\$1,878	\$124
Sale Pending	7	626	585
2001 Active Negotiation	9	1,132	99
2001 High Priority	19	158	306
2002 Active Negotiation - PGE	1	1,589	0
- Cornhusker	1	0	200
2002 High Priority	21	1,176	252
Total	88	\$6,559	\$1,566

see attached

2-8

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Restructurings

Ben, Alisa

- Dabhol - ^{Debtors not productive} - ^{can't get paid may shut}
- Raptor - ^{longer plant site idd, more op. differentiation} - ^{GOI - conversion may be enhanced 10/15}
 - Lay - ^{Clear arbitration clause, but MSFS may go to India etc to senior Enron group OK and}
- Whitewing - ^{last of Kuhn M - (last ch. of Enron group) - Al & Fred of old India will participate to}
- Azurix - ^{fracture etc}
 - Gov. companies but no note.
 - Gov. must debt is India bank? } Bond discuss
- Chewco
- Yosemite CLUs
- Delfin - ^{any comm. interest?} - ^{any group exposed 10/15, but need dil}
- Day - ^{Yates group exposed 10/15 + 4.5 mo. of due dil}
 - # of Gov. emissions
 - Chen

Day - IPPS

Summary of Major Non-Plan Divestitures

(\$ millions)

Timing	Asset/Business	Probability	Book Value	Price (Est. Value)	Net Cash Proceeds
2001/Q4	EGEP India	Medium	\$ 378	\$ 390	\$ 307
	Ecoelectrica	High	146	266	254
	CEG/CEG-Rio	Medium	247	247	247
	Azurix North America	High	197	150	-
	Enron Wind (preferred)	Low	200	200	200
2002	PGE	High	\$ 1,368	\$ 1,878	\$ 1,517
	Europe (Turkey/Poland)	Low	266	240	240
	SK Enron	Low	294	220	220
	GASPART	Low	213	205	205
	Transredes	Low	138	146	141
	EOTT Units	Low	127	127	127
	COPEL	Low	108	90	90
	GAIL	Low	70	51	51
	Other Azurix **	Low	295	136	-
	Total		\$ 4,047	\$ 4,346	\$ 3,599

* Includes Cancun and IASA Mexico, Madera Ranch, Geoplan and Mendoza.

Excl. Enron & Ecoelectrica, and 1.1
unlikely to be
by 02
Leg. Excl. Gail & well
Enron's Enron & well
AF - Mat.
PG & (Gail)
Enron's Enron

Divestitures upside not in plan.
Good probability for 2001/Q4 to get done.
Maybe Enron diff
0.3.6 bit. debt reduction
+ 1.1 PG & Enron
4.9 net debt reduction by end of 02
2409.1.1.1 debt

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• W.S.1. debt paydown

Pando - ? about \$6.6 bil. lost in ~~only~~ 2.8 slides
Different population (incl. assets already in (Plo-))

Handout is about Plo.

Savage - ? 2002 assets than writeoffs?

Presumably same. Overall value =

Cauchy - AEX is biggest shortfall ✓ is

AF - SM Enron is other top shortfall
Sent down; 10 unrelated parties only

Factor - ROE w/ assets sold

Cauchy - P61 mutual to ROE.

Agenda Item 3

EXH064-00022

Enron Corp.

**Treasurer Report
October 8, 2001**

3-1

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EXH064-00023

Enron Corp.

Active Letters of Credit by Category

(\$000)

	<u>09/21/01</u>	<u>12/31/00</u>	<u>12/31/99</u>
Bids	\$ 7,766	\$ 6,321	\$ 5,968
Debt	65,932	24,241	52,946
EOTT	139,055	102,089	150,310
Leases	12,871	12,750	15,604
Other	18,833	280,179	80,071
Other Third-Party	25	6,605	24,078
Performance ¹	980,403	425,210	522,006
Trade ¹	863,585	634,300	76,269
Grand Total	<u>\$ 2,088,470</u>	<u>\$ 1,491,695</u>	<u>\$ 927,252</u>

¹LCs for \$815,622 posted as Margin are included in the Trade and Performance categories

Enron Corp.

Guarantee Portfolio

(000's)

	<u>08/31/01</u>	<u>12/31/00</u>	<u>12/31/99</u>
Trade (Payment & Performance)	\$23,009,811	\$21,197,904	\$17,316,817
EOTT Trade	544,744	544,744	440,375
Swap Agreements (Master & Individual) ¹	13,222,421	10,878,431	7,148,443
Projects (Non-Debt) ²	6,627,145	4,632,739	4,756,470
Debt	3,338,969	3,422,444	2,493,049
Grand Total	<u>\$46,743,090</u>	<u>\$40,676,262</u>	<u>\$32,155,154</u>

¹ Increased counterparty activity.

² Increase primarily due to 6 NEPCO projects \$1.818MM

Enron Corp

Liquidity Forecast & Sensitivities

As of September 26, 2001

(\$000)

Sources Available:	Overnight	2-10 Days	11-30 days	Total
Commercial Paper (Backed by committed Bank Revolver) ¹	1,233,000			1,233,000
Uncommitted Bank Lines & Loan Sales Lines ²	255,000			255,000
Letter of Credit Facilities ³	36,530			36,530
Inventory		1,134,000		1,134,000
Net Accounts Receivable/Accounts Payable ⁴		3,242,000		3,242,000
Net PRMA		300,000		300,000
Operational Cashflows		(50,000)		(50,000)
Shelf Registration for Public Debt Issuance		1,000,000		1,000,000
Shelf Registration for Public Equity Issuance ⁵		375,000		375,000
Whitewing Vehicle Capacity		160,000		160,000
Merchant Portfolio Available for Monetization			490,883	490,883
Scheduled Asset Monetizations			120,000	120,000
Total Sources Available	\$1,524,530	\$6,161,000	\$610,883	\$8,296,413

¹ CP Program Capacity is \$3,350 million

² Loan Sales Capacity is \$550 million

³ L/C Lines Capacity total \$2,125 million

⁴ A/R Sale Proceeds comprise less than 10% of Trade Receivables Available (\$11.1B)

⁵ 15 million shares at \$25 per share

Enron Corp

Liquidity Forecast & Sensitivities

As of September 26, 2001
(\$000)

Forecasted Outflows:	O/N - 10 Days	11-90 days	Total
General & Administrative Expenses	50,000	405,000	455,000
Debt Maturities	1,312,000	1,400,000	2,712,000
Total Forecasted Outflows	\$1,362,000	\$1,805,000	\$3,167,000

Contingencies:	O/N - 10 Days	11-90 days	Total
Margin Activity (Postings & Deposits Returned) ¹	836,000		836,000
Total Contingencies	\$836,000		\$836,000

Forecasted Inflows:	O/N - 10 Days	11-90 days	Total
10 Year Benchmark		1,000,000	1,000,000
Receivable Monetization	250,000	500,000	750,000
Contract Monetization		1,400,000	1,400,000
Prepaid Contracts	350,000	400,000	750,000
EOTT Monetization	185,000		185,000
Total Forecasted Inflows	\$785,000	\$3,300,000	\$4,085,000

¹ Represents 99% confidence interval on 10 day V@R based on historical margin.

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Crisis Funding Breakdown

(\$MM)

	Normal Process			Crisis		
Date	CP Dealer Placement	CP Direct Placement	Bank Loans	Bank Lines	Total Funding	Comments
Week 1						
11-Sep			50	671	721	No CP Market Implemented Bilateral Loans with Citi, Chase, and BofA
12-Sep				512	512	Market open but very light Covered \$354MM of crisis borrowings from 9/11
13-Sep	305		74		379	Treasuries resume trading Covered additional \$266 of crisis borrowings
14-Sep	865	125	103		1,093	Began to overfund Repaid \$150MM of WestLB BL
Week 2						
17-Sep	435	190	70		695	Stock reopen, Fed cuts 50 bps Repaid final \$100MM on WestLB BL
18-Sep	507	67	85		659	
19-Sep	403	-	-		403	
20-Sep	220	2	80		302	
21-Sep	216	28	91		335	

- Slow paid large receivables.
- Stepped up Direct CP placement efforts.
- Over funded when possible.
- Sept 11-14: Longest term available 6 weeks at 100 bp wider than before.
- Sept 17-21: Longest term available 6 weeks at 50 bp narrower than prior week.

2

\$1,375

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Enron Financings in 2001

Brd

Completed to Date:

Type	# Deals	Amount (\$ billion)
Bank	24	6.29
Capital Markets	5	4.75
Total	29	\$11.04

① 5 v b to

- 1) AEL - Apr 02
- 2) AEL - Nov 02
- 3) Cy. Leasing

6 Syndications (Closed in 2000)

2.1

Group to issue bonds
from 1994. Did not
have a bank - 2000

To be Completed

Type	# Deals	Amount (\$ billion)
Bank	3	1.80
Capital Markets	2	1.50
Refinancings	5A	1.75
Total	10	\$5.05

1 bil note by 1994
credit rating - 3000

1 bil benchmark
\$ 500 M AEL

Projected Total 2001:

\$16.09

6000 good looking
execution

Funds Flow - 1000
most challenging

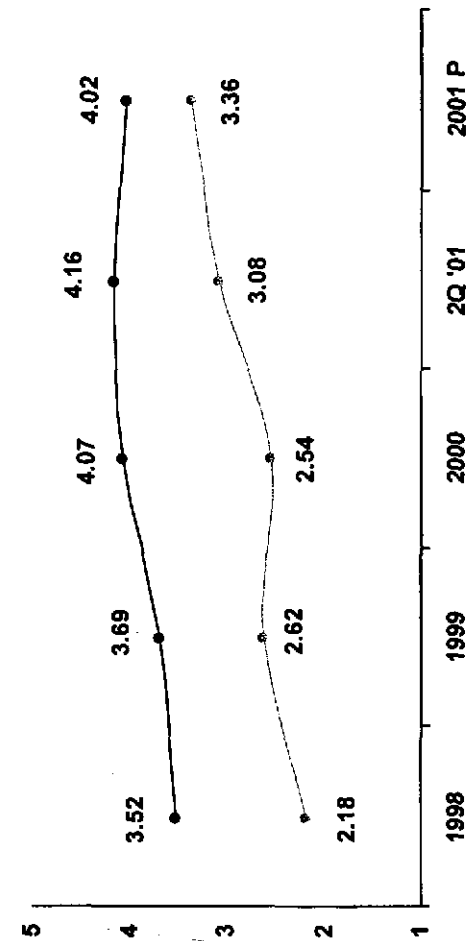
Key Financial Ratios

Focus

Ref: ELEC - Grade
- Credit - 1st 4th - High credit
liquidity
- Low interest in long credit spread & value
[Liquor et]

Ben

- Ben* *Business is higher in*
- Low financed in 2001
- 5% A/R, 2 Comm 7% of rent
- Coverage not yet to a, labeled
to E/P/E



— Funds Flow Interest Coverage
 - Interest Coverage

Arroy - Will make commitment to
use of proceeds
No. which likely was secured
Ben
Ben: On-portfolio
Wend: End Apr Comm - not

Remaining 2001 Transactions to Meet Plan

A/R Sale	\$500
Contract Monetization	\$1,400
Prepaid Contracts	\$400

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Other 2001 Finance Activity

Ten Year Benchmark	\$1,000
--------------------	---------

② *Arroy*

Equity: Strong investment in P&E
& research, invest. info.
1, 000,000, 10%

③ *Arroy - Rating Outlook?*

Ben: Stable. Upward trend in asset value
& debt reduction
Arroy - assets will use approx. 500. to
change current outlook

Rating Summary

Rating Agency	Long Term	Commercial Paper	Outlook
Standard & Poors	BBB+	A2	Stable
Moody's	Baa1	P2	Stable
Fitch IBCA	BBB+	F-2	Stable
R and I (Japan)	A-	n/a	Stable

Net Investment Activity

(\$MM)

Ben

	Actual June YTD	Proforma 2001 Operating Results	Q3 & Q4 Identified Transactions	Proforma 2001
Funds Flow from Operations	1,804	374	2,526	2,900
Change in Working Capital	(3,142)	(3,797) ⁽¹⁾	1,426 ⁽²⁾	(2,371)
Proceeds from Asset Sales	1,423	1,535	738	2,273 ⁽³⁾
Investing Activities	(2,583) ⁽⁴⁾	(3,379)	(350)	(3,729)

⁽¹⁾ Includes \$426 MM in margin deposit refunds.

⁽²⁾ Includes \$1 B in Accounts Receivable Sales, \$500 MM of L/Cs replacing cash margin posted and \$250MM of inventory monetizations.

⁽³⁾ Primarily proceeds from sale of Peaking Power Plants.

⁽⁴⁾ June YTD includes \$347 MM related to Sithe intangibles, \$487 MM for Sithe restructuring, \$326 MM for Azurix privatization.

o A/c can grow, w/c grows
- w/c & Inv. depts/facilities
this gr.

Cost of Capital

Ben

5 year annualized return

ENE WACC



Equity Analyst Forecasted Stock Prices

Firm	Recommendation	12 Month Target Price
A.G. Edwards	Accumulate	55
CIBC Oppenheimer	Buy	80
CSFB	Strong Buy	84
Goldman Sachs	Buy	68
Howard Weil	Accumulate	76
Merrill Lynch	Buy	75
Morgan Stanley	Outperform	85
Prudential	Buy	55
Simmons	Buy	55
Average		70.3

Current Stock Price	Date	Closing Price	Implied Equity Return
	9/26/2001	25.150	179.7%
% of Capital			
Cost of Capital	Cost	45%	1.7%
After Tax Debt	3.8%		
Equity	179.7%	55%	98.8%
WACC			100.5%

\$35 Target Price	Date	Closing Price	Implied Equity Return
	9/26/2001	25.150	39.2%
% of Capital			
Cost of Capital	Cost	45%	1.7%
After Tax Debt	3.8%		
Equity	39.2%	55%	21.5%
WACC			23.3%

Cost of Capital	Cost	% of Capital Structure
After Tax Debt	3.8%	45%
Equity	10.2%	55%
WACC		7.3%

2 cuts
 - 5% on
 - Target prices not updated in 1/01
 Difficult to know the cost
 [Duration 20]

be more regular executive presentation

Ben

Estimated New Issue Cost

As of September 26, 2001

Enron Estimated New Issue Cost				
USD	1y	3y	5y	10y
Capital Markets	3.88%	5.93%	6.35%	7.33%
Bank Market	L + 125	L + 150		

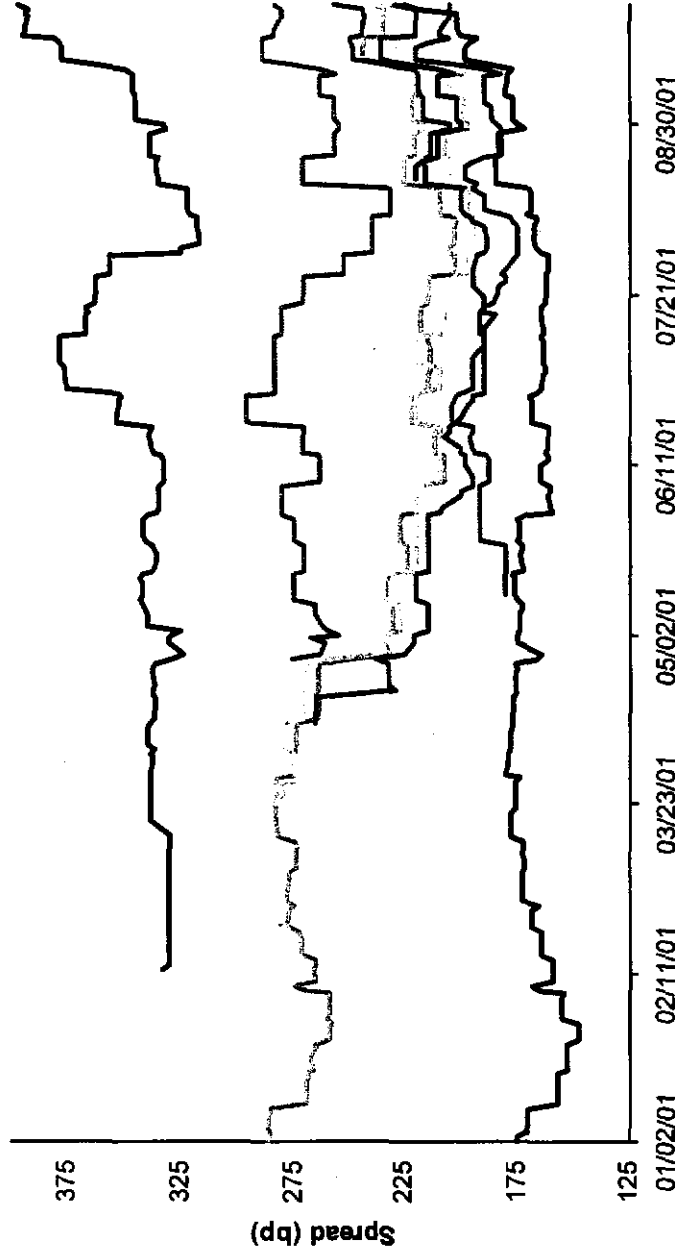
USD Equivalent libor Funding Spreads				
USD	1.76%	1.76%	1.55%	1.80%
Sterling	1.12%	1.12%	1.31%	1.50%
Euro	1.08%	1.08%	1.24%	1.47%

Cheap Treasuries
↓ wider spreads in today's mkt.

Comparison of Funding Spreads Marketers and Producers

Bar

- Peers all gapped
- Enron gapped more
- 50% activity thru pie - 9/11
 - JKS departure
 - Mkt rumors
- Expect to stay inside EPA + WMI

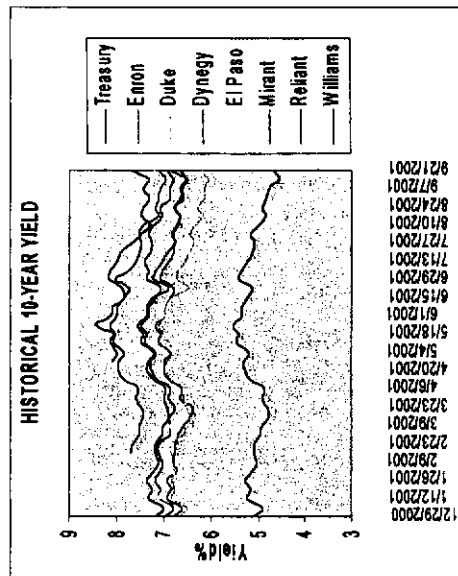
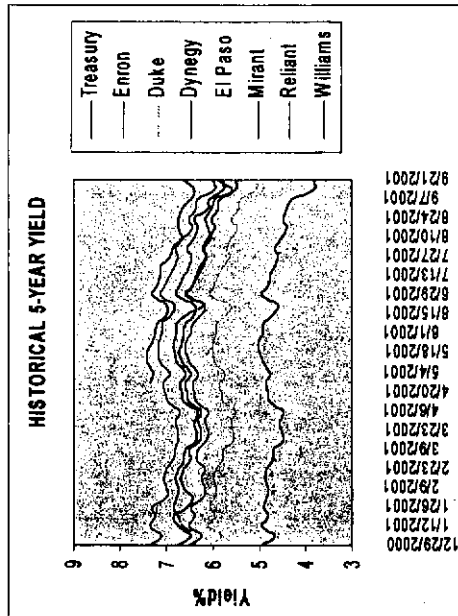
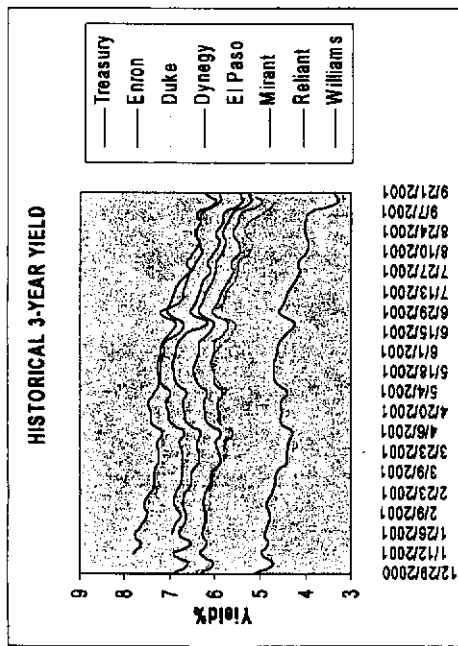


MIR 8.300% due 05/01/11
 Calpine 8.500% due 02/15/11
 PSEG Power 7.750% due 04/01/11
 Enron 6.75% due 08/01/09
 NRG 8.250% due 09/15/10
 Allegheny Energy 7.800% due 03/15/11
 El Paso 7.000% due 05/15/11
 VMB 7.125% due 09/01/11

Market Structure

Sector Spreads

As of September 21, 2001



Historical 3-Year Treasury Spread (bps)			
	9/21/2001	9/7/2001	3/30/2001
ENE (BBB+/Baa1)	190	155	139
DUK (A/A3)	135	106	143
DYN (BBB+/Baa2)	185	191	205
EPG (BBB/Baa2)	210	163	168
MIR (BBB-/Baa2)	275	251	248
REI (BBB+/Baa2)	215	241	240
WMB (BBB-/Baa2)	205	174	180
Treasury Rate	3.37%	3.89%	4.60%

Historical 5-Year Treasury Spread (bps)			
	9/21/2001	9/7/2001	3/30/2001
ENE (BBB+/Baa1)	225	168	161
DUK (A/A3)	122	109	104
DYN (BBB+/Baa2)	195	155	186
EPG (BBB/Baa2)	225	195	172
MIR (BBB-/Baa2)	270	218	N/A
REI (BBB+/Baa2)	225	205	221
WMB (BBB-/Baa2)	220	178	176
Treasury Rate	3.83%	4.30%	4.56%

Historical 10-Year Treasury Spread (bps)			
	9/21/2001	9/7/2001	3/30/2001
ENE (BBB+/Baa1)	220	183	173
DUK (A/A3)	146	135	168
DYN (BBB+/Baa2)	210	185	208
EPG (BBB/Baa2)	238	232	186
MIR (BBB-/Baa2)	290	265	N/A
REI (BBB+/Baa2)	235	230	268
WMB (BBB-/Baa2)	228	207	198
Treasury Rate	4.70%	4.79%	4.82%

0. wide level of spread differentials in today mkt

6 Lower liquidity - will issue carbon & bond

Added churn & Mirant & Enron and deals - absorbed well.

7. In mkt - 9/21 - mkt still

Market Indicators

As of September 26, 2001

<u>Interest Rates</u>	<u>YTD Max</u>	<u>YTD Min</u>	<u>YTD Change</u>	<u>12/31/2000</u>	<u>9/26/2001</u>
30 Day A2/P2 CP	6.45%	2.83%	-3.37%	6.40%	3.03%
3 Yr Treasury	5.14%	3.29%	-1.84%	5.13%	3.29%
5 Yr Treasury	5.05%	3.77%	-1.21%	4.98%	3.77%
10 Yr Treasury	5.52%	4.55%	-0.48%	5.11%	4.63%
Libor (3M)	6.40%	2.59%	-3.81%	6.40%	2.59%
<u>Equities</u>					
Dow Industrials	11,338	8,236	(2,247)	10,787	8,540
S&P Index	1,374	966	(317)	1,320	1,003
NASDAQ	2,859	1,423	(1,005)	2,471	1,466
<u>Commodities</u>					
Natural Gas (Henry Hub)	10.50	1.89	(8.61)	10.50	1.89
Crude (NYMEX)	32.19	21.81	(4.75)	26.80	22.05
<u>3 Year Sovereign Spreads</u>	<u>YTD Max</u>	<u>YTD Min</u>	<u>YTD Change</u>	<u>12/31/2000</u>	<u>9/26/2001</u>
Argentina (B-/Caa1/B-)	26.10%	4.96%	15.68%	7.00%	22.68%
Brazil (BB-/B1/BB-)	9.40%	4.41%	4.31%	5.02%	9.33%

o Deterioration in Brazil

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Agenda Item 4

EXH064-00039

Enron Corp.

Chief Risk Officer Report October 8, 2001

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EXH064-00040

Audit & Compliance and Finance Committee Roles

Roles For Monitoring The Risk Management Policy

Audit and Compliance Committee

- Review internal controls as it relates to the operation of the Risk Management Policy
- Review limit violations and determine that actions taken by management are consistent with the Policy

Finance Committee

- Approve risk management framework and review policy issues
- Determine appropriateness of limits, correlations, profitability and liquidity based on the Company's risk appetite as ratified by the Board
- Review corporate liquidity and funding plans
- Review investment returns achieved relative to expectations

Trade Credit Update

4-4

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Trade Credit Update

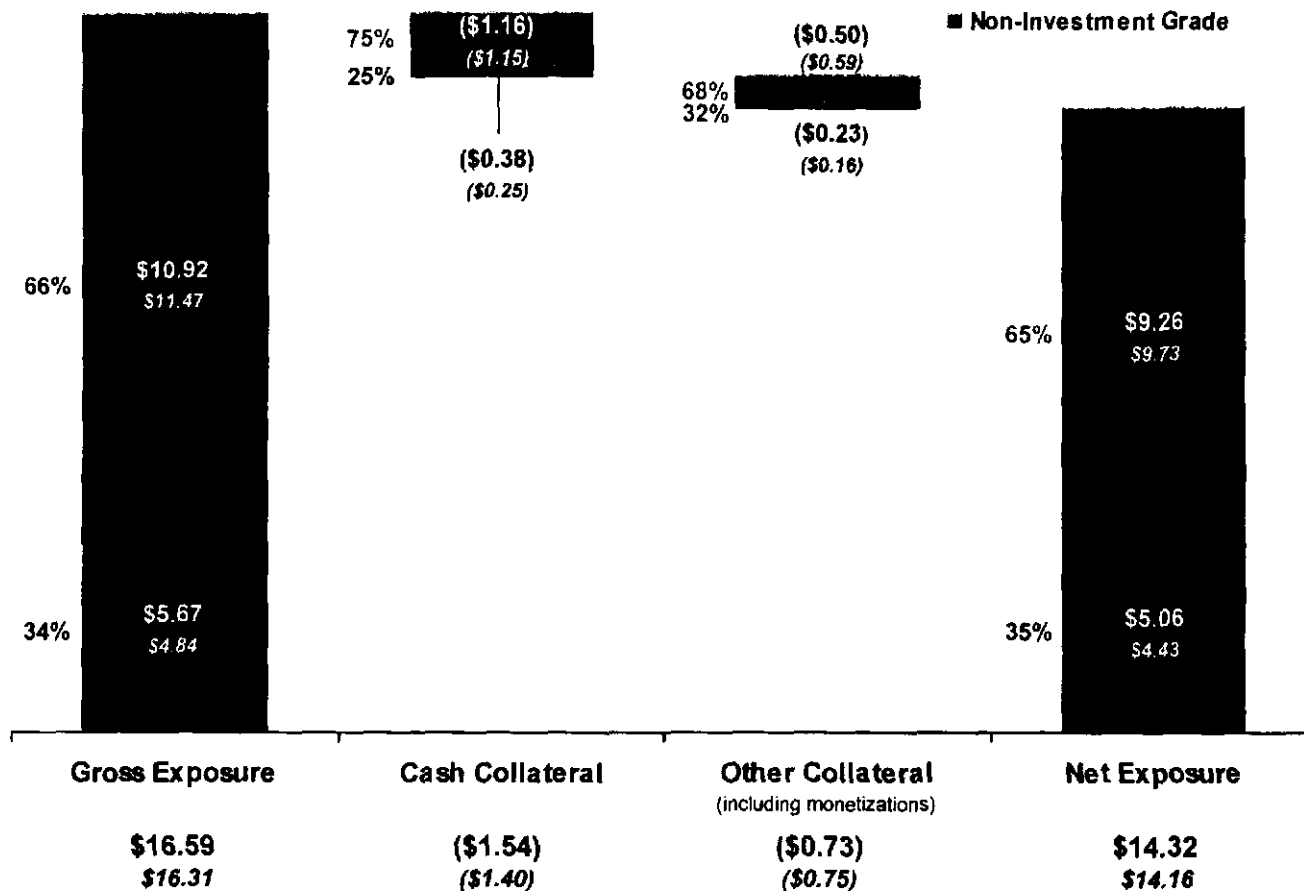
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- Trade Credit Portfolio
- Net Credit Exposure by E-Rating
- Major Trading Relationships
- Top 25 Net Credit Exposures for August 31, 2001
- Collateral
- Change in Cash Collateral
- Top 5 Country Net Credit Exposures
- California Update
- Bankruptcy Update

Trade Credit Portfolio

as of August 31, 2001
In \$Bn's

■ Investment Grade
■ Non-Investment Grade

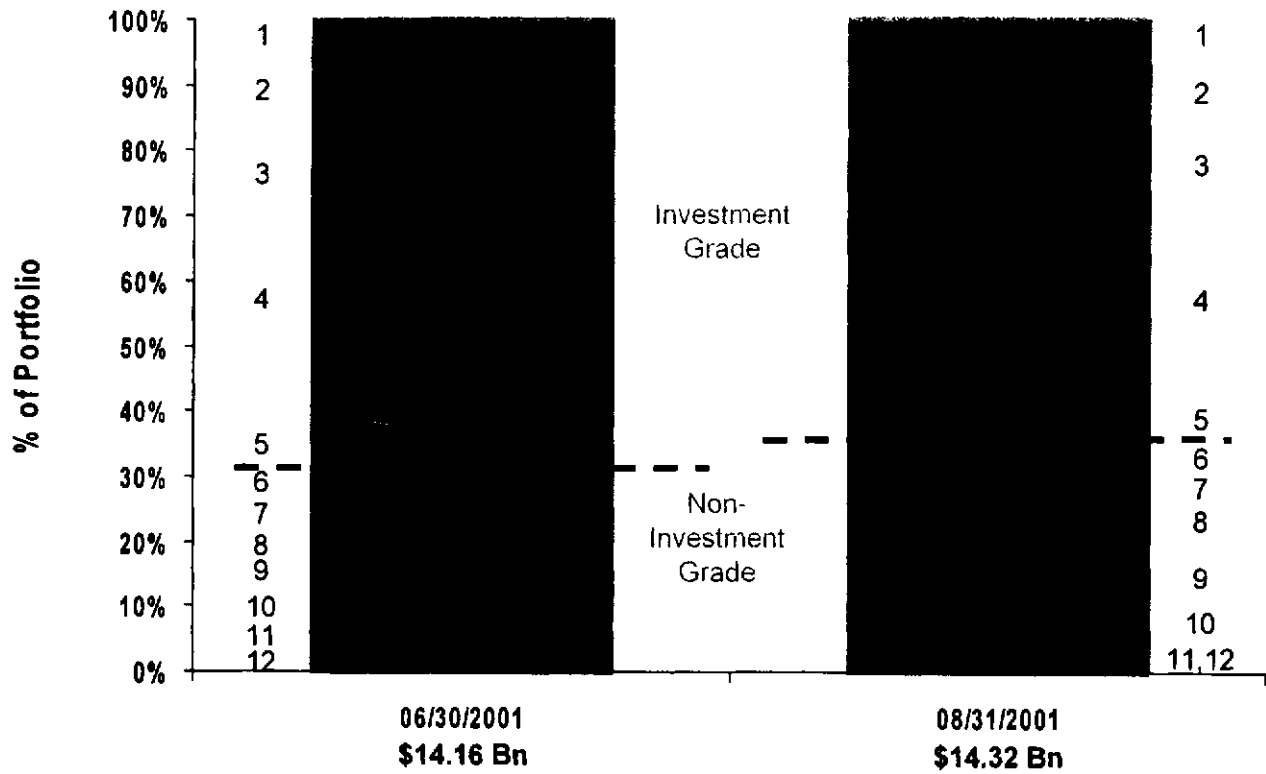


Numbers in italics represent comparable amounts at June 30, 2001.

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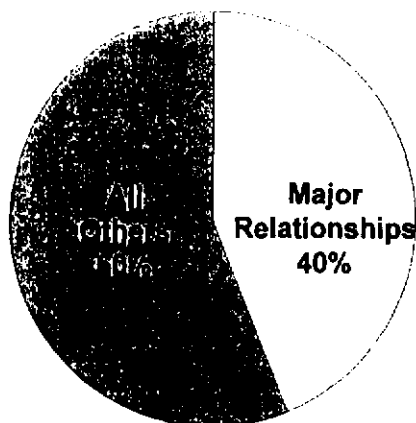
Net Credit Exposure by E-Rating



Major Trading Relationships

as of August 31, 2001

Total Net Exposure \$14.32 Bn



Parent E-Rating	Relationship	Gross Exposure In \$MM's	Collateral In \$MM's	Net Exposure In \$MM's
4	TXU Corp.	1,615	(101)	1,514
5	Sierra Pacific Resources	542	-	542
12	PG&E Corporation	505	-	505
4	Dynegy Inc.	288	-	288
4	El Paso Corporation	340	(100)	240
2	Bonneville Power Administration	229	-	229
3	Coral Energy Holding, L.P.	222	-	222
1	Government Of The United States	216	-	216
1	Koch Industries, Inc.	197	-	197
1	BP p.l.c.	274	(88)	186
11	Edison International	196	(34)	162
4	TransAlta Corporation	162	-	162
6	Calpine Corporation	258	(100)	158
8	EOTT Energy Partners LP	133	-	133
2	FPL Group Inc.	131	-	131
3	Westcoast Energy Inc.	118	-	118
4	Petro-Canada	90	-	90
3	TransCanada Pipelines Limited	84	-	84
5	Canadian Natural Resources Ltd.	81	-	81
1	American International Group, Inc.	75	-	75
5	Avista Corporation	70	-	70
3	Sempra Energy	154	(88)	66
2	Duke Energy Corporation	175	(118)	57
6	CMS Energy Corporation	90	(34)	56
4	Dominion Resources Inc.	82	(29)	53
5	Williams Companies, Inc., The	33	-	33
4	Reliant Energy Inc.	161	(141)	20
Major Relationships Total		6,521	(833)	5,688

Counterparties new to "Major Relationships" list

☐ Non-Investment Grade Credit Exposures

Top 25 Net Credit Exposures for August 31, 2001

In \$MM's

E-Rating	Counterparty Name (Legal Entity)	June 30, 2001	August 31, 2001
4	TXU Europe Energy Trading Ltd.	1,554	1,476
12	Pacific Gas & Electric Company	474	505
5	Nevada Power Company	422	373
2	Bonneville Power Administration	105	229
1	United States Department of Energy	188	205
3	Coral Energy Holding, L.P.	193	191
2	Koch Petroleum Group, L.P.	393	180
4	Dynegy Power Marketing, Inc.	196	177
12	Southern California Edison Company	145	156
7	Calpine Energy Services, L.P.	160	154
5	Sierra Pacific Power Company	149	145
8	EOTT Energy Liquids, L.P.	-	132
4	TransAlta Utilities Corporation	172	131
3	El Paso Merchant Energy, L.P.	214	131
3	IBM Corporation	102	120
2	Florida Power & Light Company	134	120
3	Public Utility District No. 1 of Snohomish County	98	116
4	Engage Energy Canada L.P.	71	98
1	BP Energy Company	163	93
4	Coastal States Trading Inc.	154	93
3	SBC Services Inc.	-	89
3	City of Santa Clara California, Silicon Valley Power	45	88
4	Petro-Canada Oil and Gas	79	83
4	Canadian Natural Resources	82	72
9	Qwest Communications Corp.	70	70
Top 25 Total			5,227
Other Net Credit Exposures			9,082
Total Net Credit Exposure			14,319

Counterparties new to "Top 25" list

Non-Investment Grade Credit Exposures

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Collateral

In \$MM's

Counterparty	8/31/2001	9/30/2001	Counterparty	08/31/2001	09/30/2001
CASH POSITIONS			INCOMING LETTERS OF CREDIT		
The Chase Manhattan Bank (1)	377	255	Allegheny Energy Supply Company, LLC	127	122
Duke Energy Trading and Marketing, L.L.C.	118	190	Calpine Energy Services, L.P.	50	111
Sempra Energy Trading Corp.	67	168	TXU Energy Trading Company	101	110
Reliant Energy Services, Inc.	169	180	Constellation Power Sources, Inc.	76	76
BP Corporation North America Inc.	88	130	EPCOR Energy Services (Alberta) Inc.	40	40
The New Power Company	109	109	The Premcor Refining Group, Inc.	11	35
El Paso Merchant Energy, L.P.	100	100	Select Energy, Inc.	50	32
Morgan Stanley Capital Group Inc.	100	96	Sempra Energy Trading Corp.	21	31
PSEG Energy Resources & Trade LLC	49	53	Southern California Edison Company	23	23
Goldman Sachs Capital Markets, L.P.	33	52	Entergy-Koch Trading, LP	44	0
Calpine Energy Services, L.P.	50	50	Other	328	364
Utilicorp United Inc.	48	48	Total Incoming Letters of Credit	671	944
Other Cash - Incoming	233	267			
Other Cash - Outgoing	(156)	(122)			
Aquila Risk Management Corporation	(64)	0	OUTGOING LETTERS OF CREDIT		
Mirant Americas Energy Marketing, L.P.	(200)	0	Duke Energy Trading and Marketing, L.L.C.	(200)	(200)
Bank of America, National Association	(26)	(48)	California Power Exchange Corporation	(107)	(107)
Entergy-Koch Trading, LP	(20)	(50)	Pacific Gas & Electric Company	(100)	(100)
Credit Suisse First Boston International	(17)	(59)	Williams Energy Marketing & Trading Company	0	(100)
Merrill Lynch Capital Services, Inc.	(45)	(60)	Mirant Americas Energy Marketing, L.P.	0	(55)
Hess Energy Trading Company LLC	(43)	(68)	Aquila Risk Management Corporation	0	(50)
Phibro Inc.	(72)	(78)	The California Independent System Operator Corporation	(36)	(36)
Reliant Energy Services, Inc.	(135)	(92)	Aquila Energy Marketing Corporation	0	(30)
El Paso Merchant Energy, L.P.	(100)	(100)	Oman Liquefied Natural Gas, LLC.	(23)	(19)
Mahonia Ltd	(145)	(123)	Swiss Re Financial Products Corporation	(18)	(18)
Morgan Stanley Capital Group Inc.	(119)	(136)	Powerex Corp.	(27)	0
Williams Energy Marketing & Trading Company	(295)	(186)	Duke Energy Marketing Limited Partnership	(18)	0
J. Aron & Company	(161)	(210)	Other	(4)	(5)
Duke Energy Trading and Marketing, L.L.C.	(521)	(330)	Total Outgoing Letters of Credit	(533)	(720)
Net Outgoing Cash	(579)	16			
Total Incoming Cash	1,541	1,678	OUTGOING SURETY BONDS		
Total Outgoing Cash	(2,120)	(1,662)	Mahonia Ltd	(981)	(981)
			ISO New England Inc.	(40)	(45)
			Total Outgoing Surety Bonds	(1,021)	(1,026)
OUTGOING SECURITIES					
Bank of Montreal	(93)	(125)			

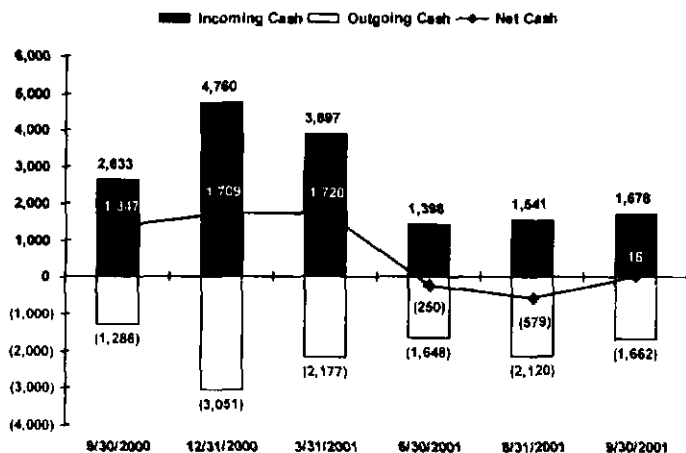
(1) Includes amount related to prepay structure with Mahonia Ltd.

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Change in Cash Collateral

In \$MM's



Major Cash Positions - Incoming

Counterparty	06/30/2001	08/31/2001	09/30/2001	Q3 Change
The Chase Manhattan Bank	596	377	255	(331)
Duke Energy Trading and Marketing, L.L.C.	66	118	190	124
Sempra Energy Trading Corp.	42	67	168	126
Reliant Energy Services, Inc.	135	169	160	25
BP Corporation North America Inc.	92	88	130	38
The New Power Company	70	109	109	39
El Paso Merchant Energy, L.P. (1)	0	100	100	100
Morgan Stanley Capital Group Inc.	120	100	96	(24)
PSEG Energy Resources & Trade LLC	32	49	53	21
Goldman Sachs Capital Markets, L.P.	10	33	52	42
Calpine Energy Services, L.P.	0	50	50	50
Utilicorp United Inc.	0	48	48	48
Other	245	233	267	22
Total Incoming	1,398	1,541	1,678	280

Major Cash Positions - Outgoing

Counterparty	06/30/2001	08/31/2001	09/30/2001	Q3 Change
Duke Energy Trading and Marketing, L.L.C.	(351)	(521)	(330)	21
J. Aron & Company	(63)	(161)	(210)	(147)
Williams Energy Marketing & Trading Company	(16)	(296)	(186)	(170)
Morgan Stanley Capital Group Inc.	(142)	(119)	(136)	6
Mahonia Ltd.	(442)	(145)	(123)	319
El Paso Merchant Energy, L.P. (1)	0	(100)	(100)	(100)
Reliant Energy Services, Inc.	(124)	(135)	(92)	32
Phibro Inc.	(54)	(72)	(78)	(24)
Hess Energy Trading Company LLC	(1)	(43)	(68)	(67)
Merrill Lynch Capital Services, Inc.	(49)	(45)	(60)	(11)
Credit Suisse First Boston International	(9)	(17)	(59)	(50)
Entergy-Koch Trading, LP	0	(20)	(50)	(50)
Bank of America, National Association	0	(26)	(48)	(48)
Mirant Americas Energy Marketing, L.P.	(101)	(200)	0	101
Aquila Risk Management Corporation	(112)	(64)	0	112
Other	(184)	(156)	(122)	62
Total Outgoing	(1,648)	(2,120)	(1,662)	(14)
Net Cash	(250)	(579)	16	288

(1) Incoming and outgoing collateral posted in the same amount, for a net cash position equal to zero

Top 5 Country Net Credit Exposures ⁽¹⁾

In \$MM's

E-Rating	Country	June 30, 2001	% of Total	August 31, 2001	% of Total
1	USA	10,246	72%	10,399	73%
1	United Kingdom	1,833	13%	1,874	13%
1	Canada	1,356	10%	1,270	9%
1	Germany	127	1%	98	1%
6	Mexico	N/A		54	
Top 5 Total				13,695	
Other Net Credit Exposures				624	
Total Net Credit Exposure				14,319	

Counterparties new to "Top 5" list

Non-Investment Grade Credit Exposures

Other Net Credit Exposures

Czech Republic	48
Sweden	43
Switzerland	40
France	39
Netherlands	36
Australia	36
Slovakia	29
Norway	27
Spain	26
China	23
Trinidad & Tobago	23
Italy	21
Bermuda	19
Croatia	19
Belgium	18
South Korea	17
Panama	16
Cayman Islands	12
Brazil	10
Japan	10
Slovenia	9
Hong Kong	9
Liberia	8
Colombia	8
Finland	7
Austria	6
Ireland	6
Philippines	5
Argentina	5
Other	49
Total	624

⁽¹⁾ Calculated based on country of incorporation.

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California Update

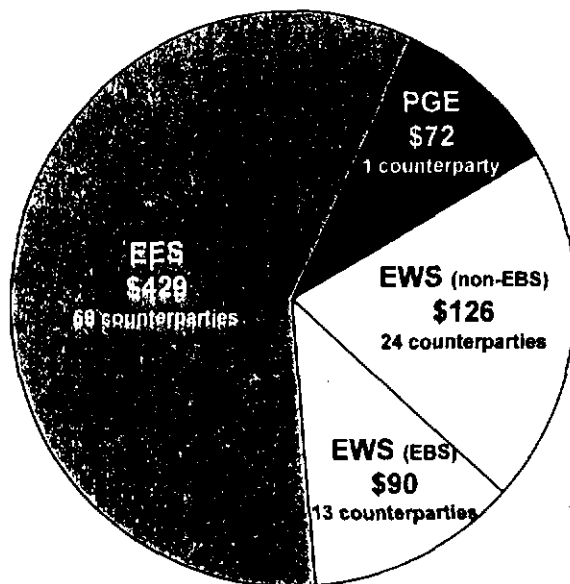
as of August 31, 2001
In \$MM's

Utility Exposure	Enron	PGE	Net Exposure
Pacific Gas & Electric Company ("PG&E")	505	72	577
Southern California Edison Company ("Edison")	156	40	196
Total Utility Exposure			<u>773</u>

- ◆ The Edison "bailout" bill stalled in the California Senate and support is weak.
- ◆ PG&E filed its Plan of Reorganization ("POR") on September 20th, which would pay accepted claims in full, plus interest.
- ◆ PG&E's unsecured creditors would be paid 60% cash and given 40% in restructured debt.
- ◆ PG&E's POR faces numerous legal challenges from the State of California and if successful, will take from 1.5 years to 3 years to achieve consummation.
- ◆ Of \$577MM in Enron exposure to PG&E (includes \$72MM at PGE), \$403MM is related to negative CTC claims that PG&E is disputing.

Bankruptcy Update

as of August 31, 2001
In \$MM's



Total Exposure
\$717⁽¹⁾
107 counterparties

- ◆ As a result of Enron's migration into the retail sector and declining credit markets, current bankruptcy rates represent a significant increase from historical Enron experience.
- ◆ Total bankruptcies from 1994 to 1999 were fewer than twenty counterparties and \$30MM.

Bankrupt Counterparty Exposures over \$10MM

Counterparty Name	Business Unit	Exposure	% of Total Exposure
Pacific Gas & Electric Company	EES, ENA, PGE	577	81%
360networks, inc.	EBS	87	12%
Sub-Total Exposures over \$10MM		664	
Other Exposure		53	7%
Total Exposure		717	

⁽¹⁾ Amount represents exposure before any recovery.

Market Risk Update

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EXH064-00054

Market Risk Update

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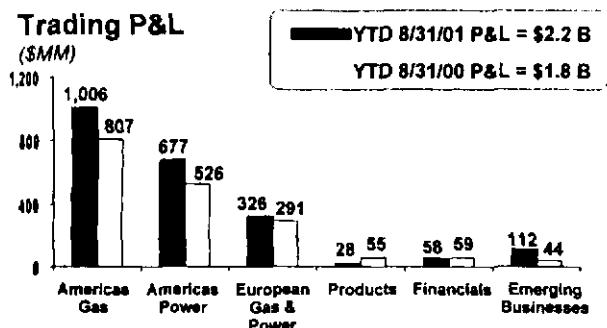
- Risk Profile
- Risk Profile by Market Concentration
- Risk Profile by Business Unit
- Backtesting of Enron Corp. Aggregate VaR
- Utilization of VaR Limits
- Market Risk Limit Violations
- Scenario Analysis
- Liquidity Risk Ratio Analysis
- Brazilian Foreign Exchange Exposure Update

Risk Profile

Eight Months Ended August 31, 2001 and 2000

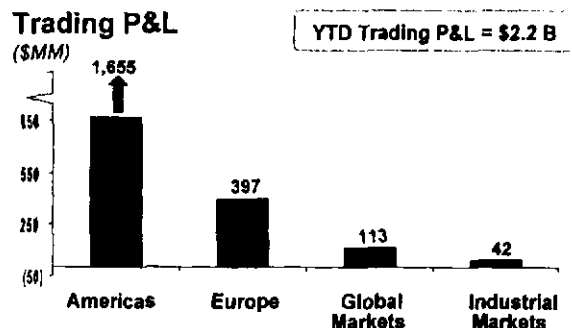
Market Concentration⁽¹⁾

Trading P&L (\$MM)

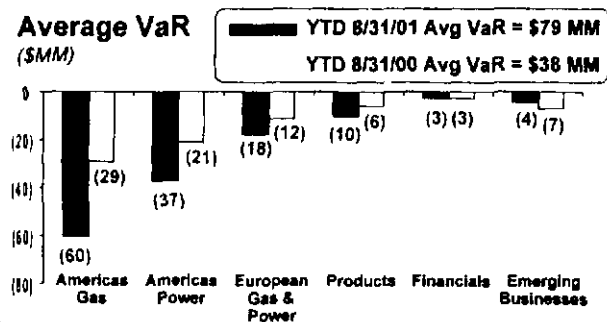


Business Unit Comparison

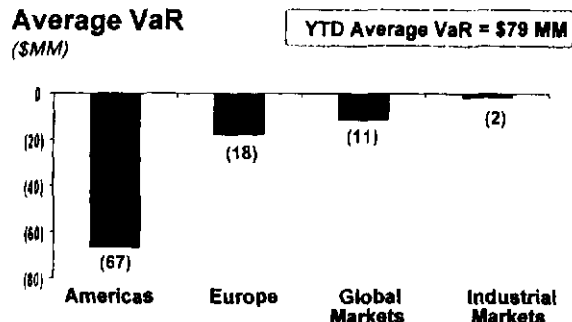
Trading P&L (\$MM)



Average VaR (\$MM)



Average VaR (\$MM)



Return on VaR - Eight Months Ended August 31

	Enron					
2001	128%	140%	141%	21%	158%	210%
2000	210%	189%	192%	72%	157%	49%

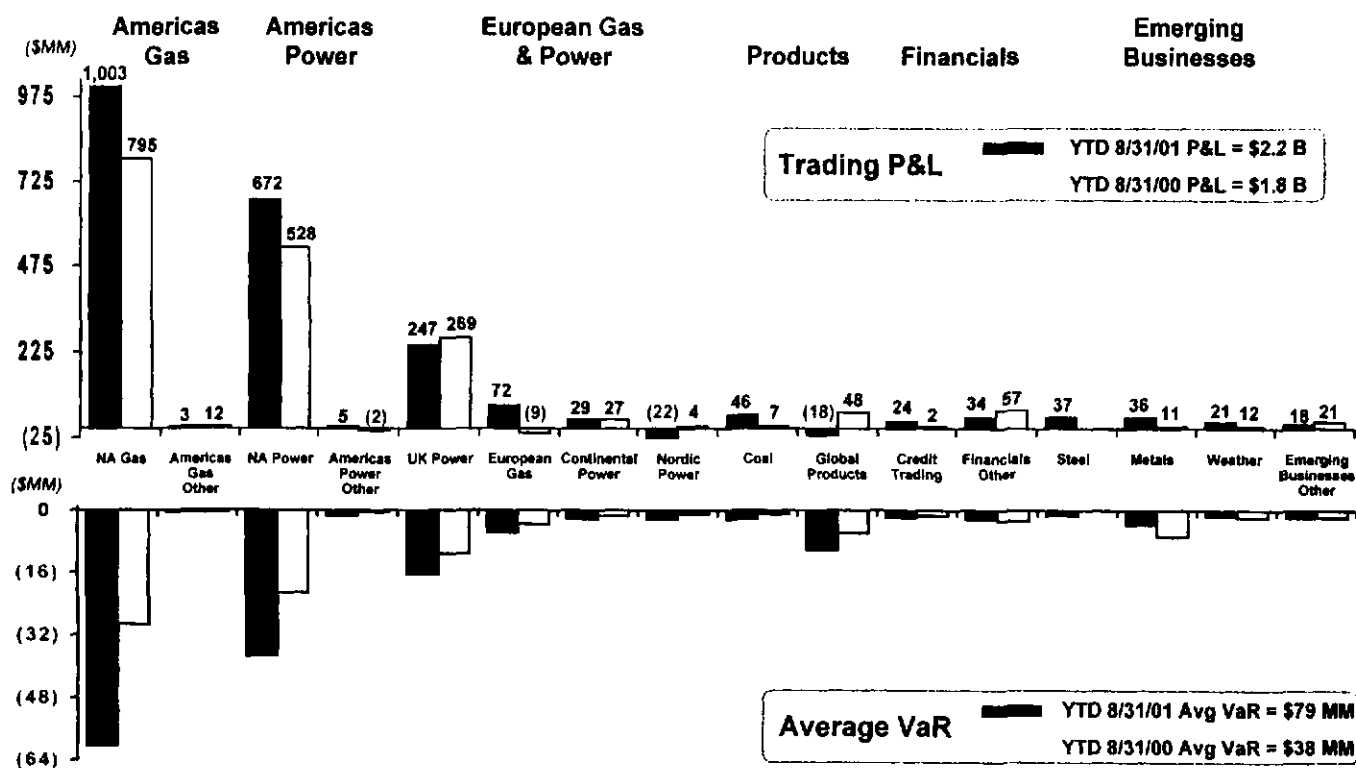
Return on VaR - Eight Months Ended August 31

	Enron					
2001	191%	168%	78%	201%	214%	352%
2000	281%	178%	139%	114%	352%	

(1) Commodities aggregated per Concentration Limit categories

Risk Profile by Market Concentration

Eight Months Ended August 31, 2001 and 2000



Return on VaR - Eight Months Ended August 31

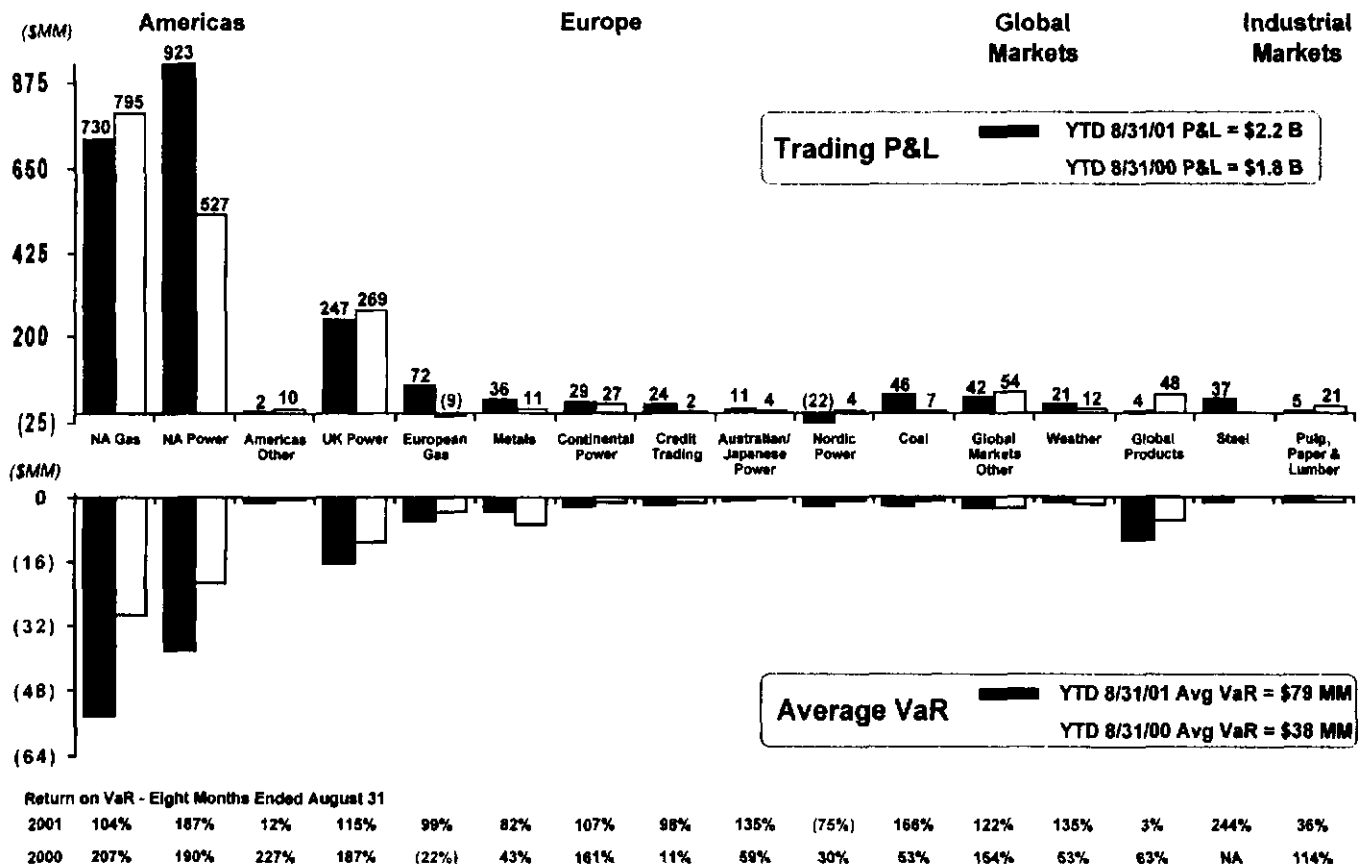
2001	129%	85%	141%	32%	115%	99%	107%	(75%)	175%	(14%)	98%	127%	244%	82%	135%	86%
2000	207%	295%	190%	(88%)	187%	(22%)	161%	30%	63%	63%	11%	166%	NA	43%	63%	105%

Total Enron RoVaR YTD 8/31/01 = 214%

Total Enron RoVaR YTD 8/31/00 = 352%

Risk Profile by Business Unit

Eight Months Ended August 31, 2001 and 2000

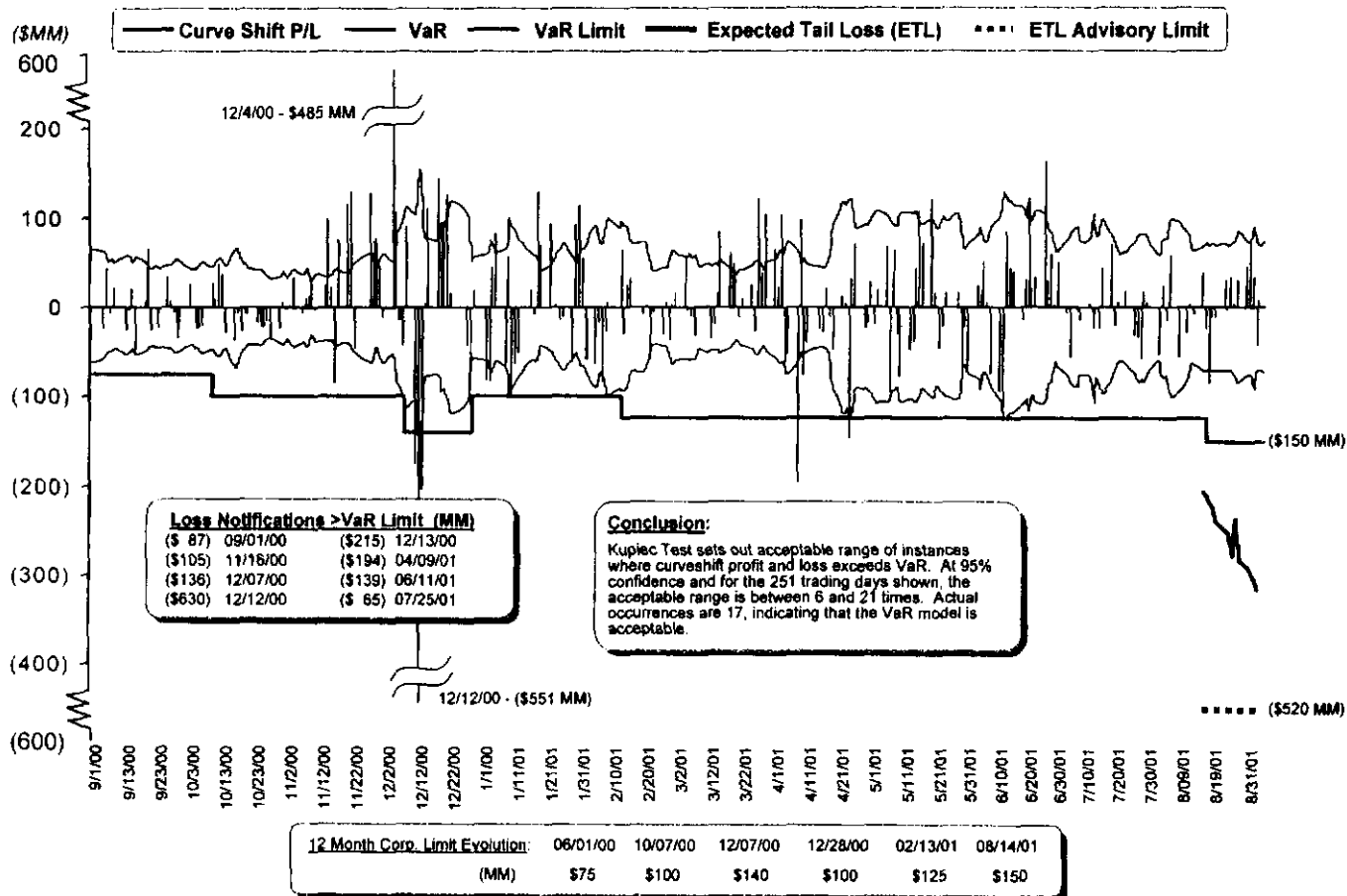


Total Enron RoVaR YTD 8/31/01 = 214%

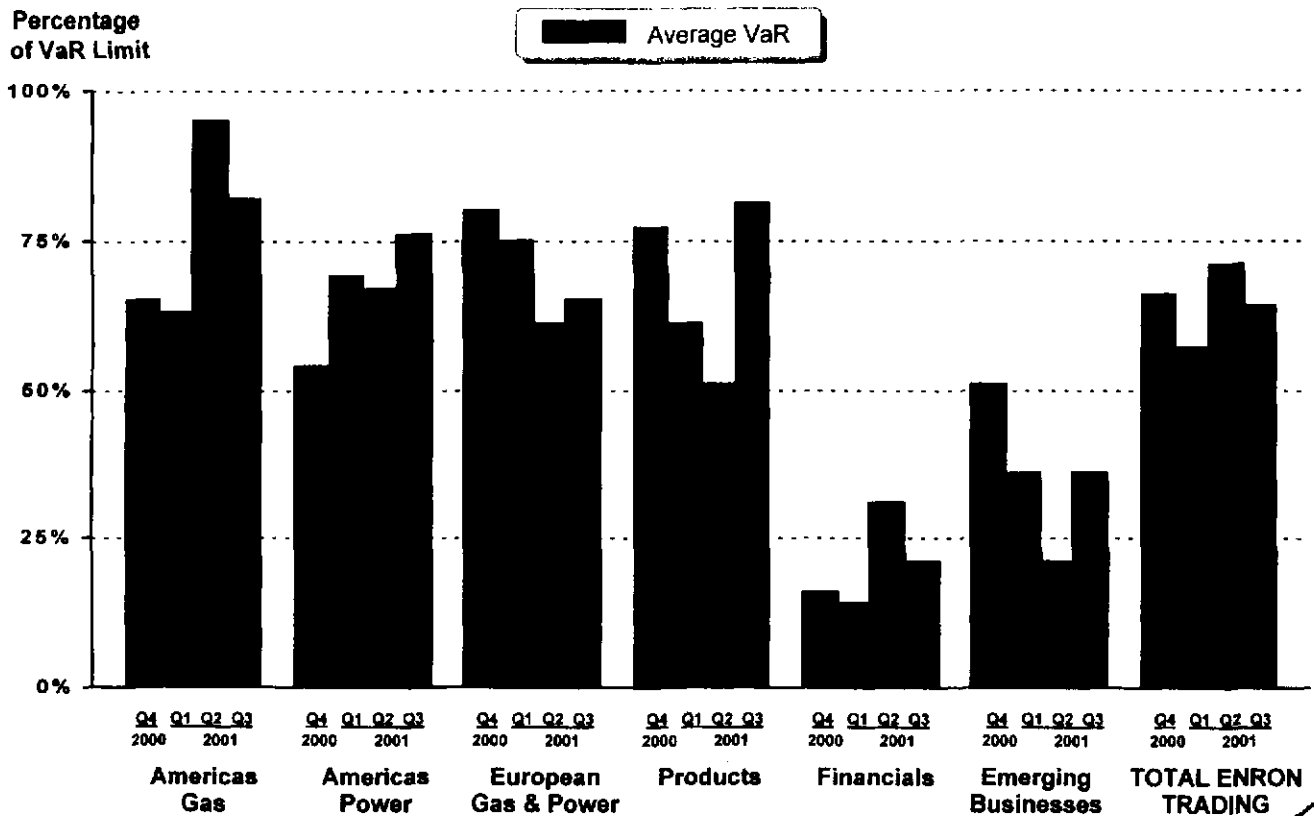
Total Enron RoVaR YTD 8/31/00 = 352%

Backtesting of Enron Corp. Aggregate VaR

12 Months Ended August 31, 2001



Utilization of VaR Limits Quarterly Comparison



Note 1: Q3 2001 represented by July 1 – August 31.

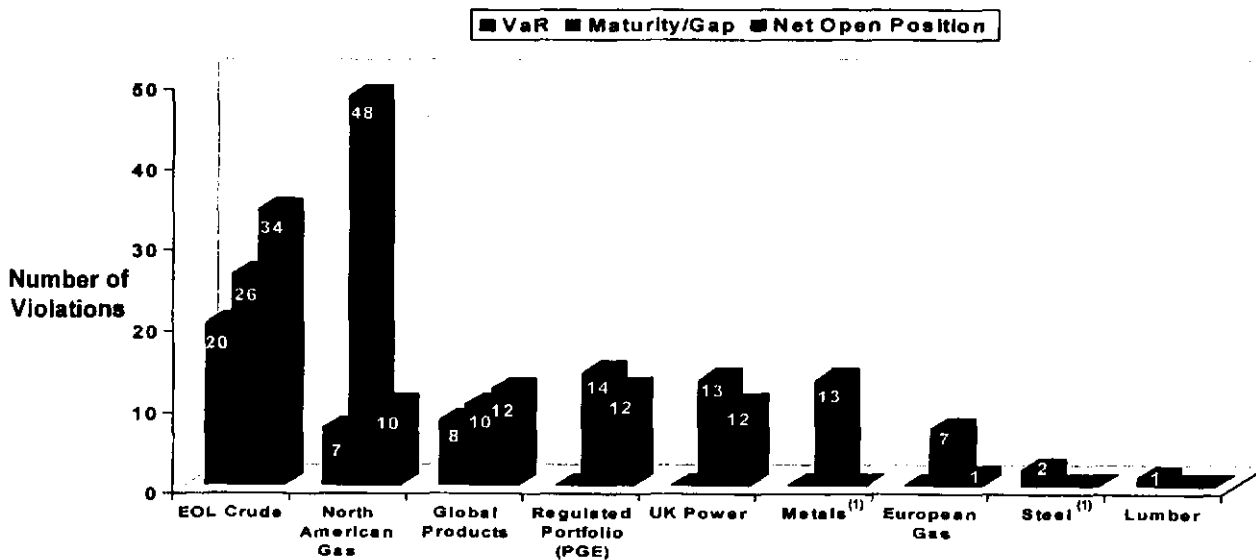
Note 2: Utilization calculations were based on Commodity Group Limits, not Concentration Limits. Concentration Limits were not established until 8/14/01.

Market Risk Limit Violations

July 1 to September 26, 2001

- ☐ No Violations of Board Approved Portfolio Limits
- ☐ No Violations of Board Approved Concentration Limits
- ☐ No Violations of Business Unit Limits
- ☐ Commodity Group Limits are established conservatively to act not as traditional "limits", but as triggers for management decision making, thereby ensuring compliance with Concentration Limits. Commodity Group Limits may be adjusted frequently in response to business needs and market dynamics.

Commodity Group Limit Violations



⁽¹⁾ Violations were the result of booking errors.

Scenario Analysis as of September 2001

What if...

Potential Losses
(\$MM) (100) (200) (300) (400)

War in the Middle East Breaks Out

- Most militant Middle Eastern countries declare an oil embargo; crude prices rise to \$42 for the next four months
- A majority of the Middle Eastern countries declare an oil embargo; price of crude spikes to \$75 for the next four months
- Terrorists destroy a gas pipeline in the Gulf; gas prices increase an average of \$1 per month for the next 12 months

(\$82)*

(\$274)*

(\$200)*

Recession

- Recession and war fears cause a credit crunch, reduction in volumes and foregone profits
- In addition to above, Enron realizes losses from an increase in bankruptcies

(\$250)**

(\$160)**

Prolonged and Unexpected Winter Freeze in the U.S.

- Gas and power prices rise due to an increased demand as a result of colder weather

(\$160) (\$70)
(\$230)*

* Worst case, assumes instantaneous impact on current positions.

** Losses incurred or income foregone over a 3 month period.

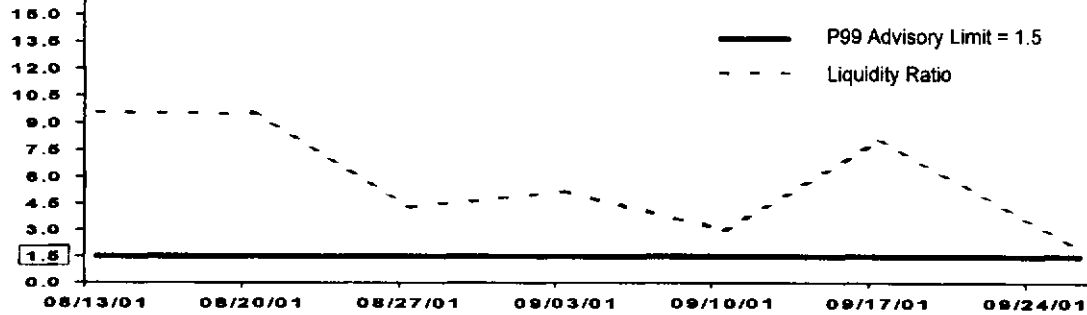
Crude
Natural Gas
Loss in Potential Profits
Credit Losses
Power

Liquidity Risk Ratio Analysis

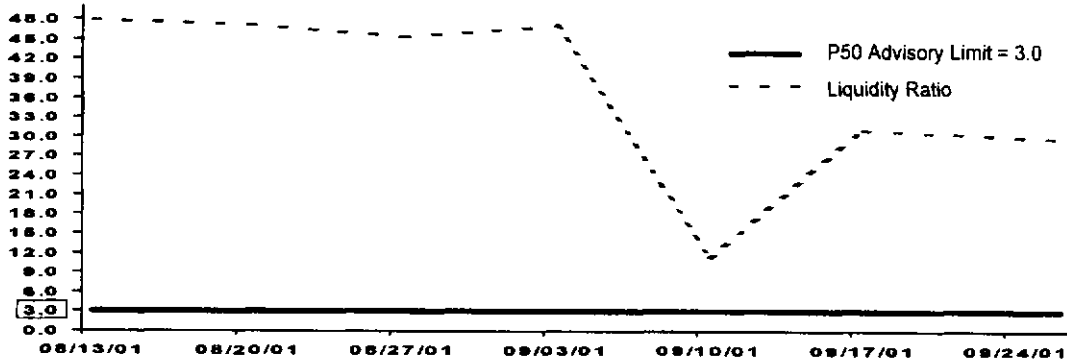
Ten Day Forward Time Horizon

$$\text{Liquidity Ratio} = \frac{\text{Future Available Cash} + \text{Borrowing Capacity}}{\text{Trading Portfolio's Potential Future Cash Requirements}}$$

Liquidity Ratio – P99 Potential Margin Exposure



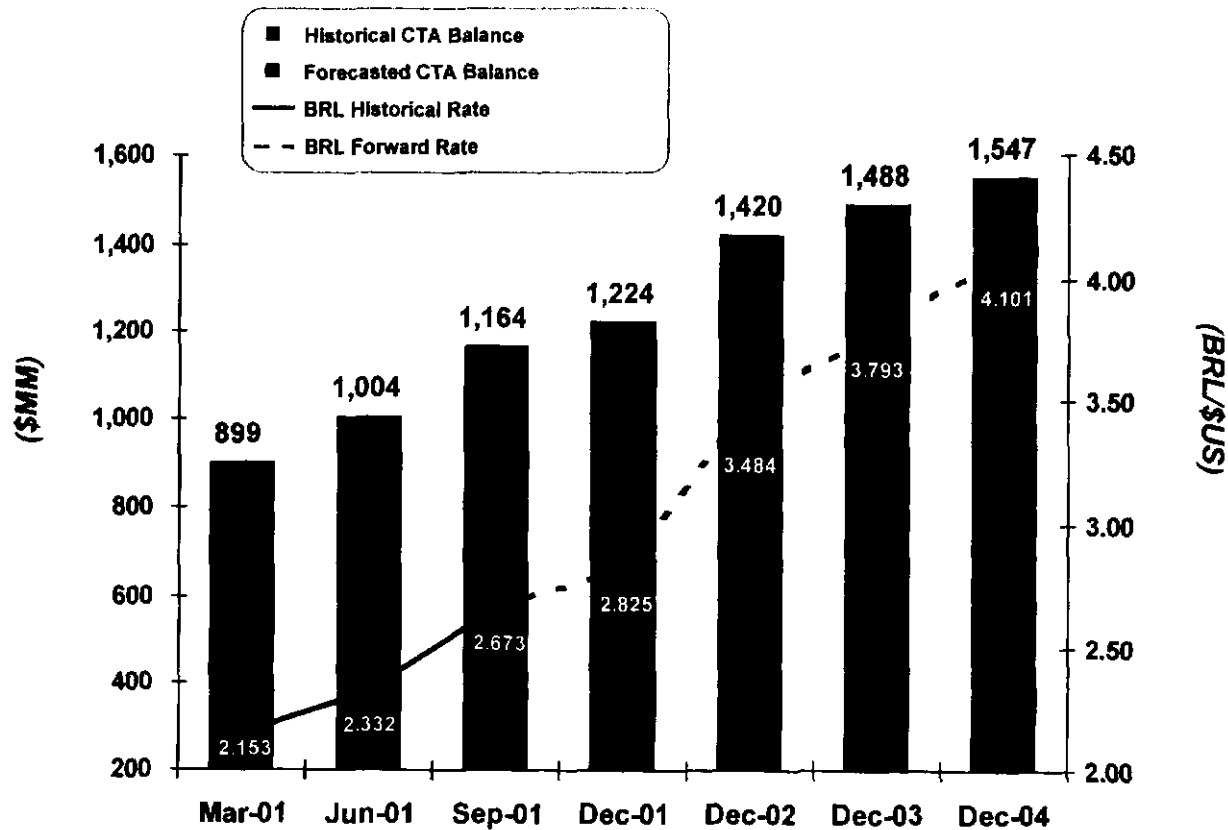
Liquidity Ratio – P50⁽¹⁾ Potential Margin Exposure



⁽¹⁾ Includes Net Accounts Receivable and Debt and Equity Shelf Registrations.

Brazilian Foreign Exchange Exposure Update

Brazilian Reals ("BRL") Cumulative Translation Adjustment (CTA) Current and Forecasted Balances



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EC46949A0030847

Post Transaction Reviews

4-26

EC46949A0030848

EXH064-00065

Procedure: Post Transaction Reviews

- ◆ Post transaction reviews for transactions over \$200 Million will be performed at a minimum of 18- and 36-month intervals after closing. Additional transaction reviews will occur as directed by the Chief Risk Officer or in response to Board questions.
- ◆ "Merchant" investments will continue to be monitored by RAC and quarterly portfolio performance reported to the Finance Committee at regularly scheduled meetings.
- ◆ Compliance related issues resulting from transaction reviews will be evaluated and discussed with the Audit and Compliance Committee. All other issues resulting from transaction reviews will be discussed with the Finance Committee.
- ◆ Major strategic implications resulting from transaction reviews will be presented to the full Board.

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Appendix Item 5

EXH064-00067

**Enron Active Deals
Potential Capital Expenditures
October 8, 2001**

R/g/ov/ Sub Group	Deal Name	Investment Category	Deal Description	Primary Risk	Gross Commit (\$MM)	Probably Adjusted Commit (\$MM)	Probably Adjusted Commit (\$MM)	Deal Status	Funding Vehicle	Country	Industry Category	Strategic Importance	Risk Rating	Probability
Corp/EGF	Bum	SWAP/Diversification	Sale of portion of membership in Elektro and purchase of collared swap to hedge market risk	Structuring/Equity Market	(1,000.0)	(500.0)	500.0	Analyzing	Off-Balance-Sheet/On Credit	Brazil	Power	S	R	50%
EGS/ETS	ENEL	Equity	Acquisition of 235 MW of thermal generation in Nicaragua	Operational/Political	15.0	1.5	0.0	Analyzing	TBD	Nicaragua	Power	S	R	10%
EWS/EACoal														
EWS/EASoil Power														
EWS/EAEOR	Tarpon	Equity	Form exploration JV. Addendum to DASH for IRR & NPV deals with current HYMEK	Exploration	3.4	3.4	0.0	DASH Circulating	Balance Sheet	US	Oil & Gas	M	R	100%
EWS/EEL/METALS	Sichuan Smelter	Equity	Construction of 250,000 tons per year aluminum smelter in JV with Chinese power company	Various	20.0	2.0	0.0	Analyzing	Balance Sheet	China	Metals	M	R	10%
EWS/EGM/Globak Liquids	OZ	SWAP	Crack spread swap on refinery UBO, product purchases, crude supply and working capital facility (\$40MM)	Portfolio/VAR	40.0	10.0	0.0	Analyzing	Balance Sheet	US	Refinery	M	R	25%
EWS/EGM	NORtech	Equity	FAS 140 Financing	Technology	(20.0)	(12.0)	12.0	Analyzing	None	US	Power	S	R	80%
EWS/EGM/LNG	Bahamas Equity	Equity	Development of a LNG \$550MM re-gasification facility with a capacity of 1.0 BCF/Day	Various/Market	(120.0)	(7.5)	7.5	Analyzing	Balance Sheet	US	LNG	M	R	30%
EWS/EGM/LNG	Bahamas Equity Sell Down	Equity	Development of a LNG \$550MM re-gasification facility with a capacity of 1.0 BCF/Day	Various/Market	(25.0)	(7.5)	7.5	Analyzing	Balance Sheet	US	LNG	M	R	30%
EES	Colins & Akman	Structured Credit	Energy Asset Management	Execution	20.0	0.0	0.0	Analyzing	Off Balance	US	Other	M	Y	75%
EES	New Power Holdings, Inc	Other	Amendment to commodity agreements which would allow the inclusion of up to \$40MM of ARI and inventory to support margin calls until 1/1/02	Credit Risk	40.0	38.0	0.0	Analyzing	Balance Sheet	US	Power	S	Y	95%
EES	Rock-Tenn	Structured Credit	Energy Asset Management	Execution	20.0	0.0	0.0	Analyzing		US	Other	M	Y	75%

* Expected to be fully syndicated
** Amount expected to fund in 2001

**Enron Active Deals
Potential Capital Expenditures
October 8, 2001**

Region	Sub-Region	Deal Name	Investment Category	Deal Description	Primary Risk	Green Capital	Transition Capital	Probability Adjusted Capital	Deal Status	Funding Vehicle	Country	Industry Category	Strategic Alignment	Risk Flag	Probability
EGS/EEO/SNEPCO	FPL/Anderson (A)	Other	\$241.8MM LSTK EPC with FPL Energy for a 540 MW combined cycle plant in Anderson, South Carolina using 2 GE 7FA, 2x1. FPL in the process of purchasing project from GenPower. Anticipated COD in May 2004.	Execution		0.0	0.0	2.5	Analyzing	BalSheet	US	Engineering & Construction	S	Y	50%
EGS/EEO/SNEPCO	FPL/Kelley (A)	Other	\$440.8MM LSTK EPC with FPL Energy for a 1,080 MW combined cycle plant in Kelley, Alabama using 4 GE 7FA, 2x1. FPL in the process of purchasing project from GenPower. Anticipated COD in May 2004.	Execution		0.0	0.0	2.5	Analyzing	BalSheet	US	Engineering & Construction	S	Y	50%
EGS/EEO/SNEPCO	NRG/Gile Bend (B&B-1)	Other	\$227.3MM BOP & HRSG PC with NRG Energy for a 800 MW combined cycle plant in Gile Bend, Arizona using 3 GE 7FA, 3x1. Anticipated COD in May 2004.	Execution		0.0	0.0	1.5	Analyzing	BalSheet	US	Engineering & Construction	S	Y	50%
EGS/Wind	Colorado Green Power	Other	EWG requests approval to sign a 15-yr must-take wind energy PPA with PSCo as part of a 150MW wind project development.	Sale of project		5.0	4.5	9.0	Analyzing	BalSheet	US	Renewable Energy Wind	M	Y	90%
EWB/EA	Graceland II	Debt	Drilling costs for term-in-scrutiny			2.5	2.5	0.0	Analyzing	BalSheet	US	Oil & Gas	M	Y	100%
EWB/EA/ECM	Falcon	Structured Credit	Base gas cash for gas storage	Credit		5.0	1.0	0.0	Analyzing	BalSheet	US	Gas Transmission	M	Y	20%
EWB/EA/ECR	Andex II	VFP	VFP add-on Engineering in progress	Reserve		7.0	0.0	0.0	Analyzing	BalSheet	US	Oil & Gas	M	Y	80%
EWB/EA/ECR	EDS	VFP	Capital cost of existing power plant. EDS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS.	Company Advisory		0.0	0.0	0.0	Analyzing	BalSheet	US	Oil & Gas	M	Y	80%
EWB/EA/ECR	EDS	VFP	Capital cost of existing power plant. EDS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS.	Company Advisory		0.0	0.0	0.0	Analyzing	BalSheet	US	Oil & Gas	M	Y	80%
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EWB/EA/ECR	EDS	VFP	Capital cost of existing power plant. EDS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS.	Company Advisory		0.0	0.0	0.0	Analyzing	BalSheet	US	Oil & Gas	M	Y	80%
EWB/EA/ECR	EDS	VFP	Capital cost of existing power plant. EDS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS. EBS is a 100% owned subsidiary of EBS.	Company Advisory		0.0	0.0	0.0	Analyzing	BalSheet	US	Oil & Gas	M	Y	80%
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* Expected to be fully syndicated
** Amount expected to fund in 2001

EC46949A0030852

Enron Active Deals
Potential Capital Expenditures
October 8, 2001

Sub-Total Outflows	2,538.0	877.9	535.0
Sub-Total Inflows	(1,048.9)	(523.2)	0.0
Grand Total	1,489.1	354.7	535.0

EC46949A0030853

* Expected to be fully syndicated
** Amount expected to fund in 2001

Enron Corp.

Projects and Amendments October 8, 2001

5-1

EC46949A0030854

EXH064-00071

EC46949A0030855

Agenda Item 5c

EXH064-00072

Revision to the Risk Management Policy

5A-1

EC46949A0030856

EXH064-00073

Summary of Policy Changes

We recommend Board approval of the following amendments to the Risk Management Policy:

MARKET RISK

- ◆ Instead of requiring the Chief Executive Officer to approve daily changes to Business Unit Limits, Commodity Group Limits and allocations of Discretionary VaR, the Chief Risk Officer or his designee is authorized to approve in consultation with the Risk Management Committee
 - Portfolio and Concentration Limits still to be approved by the Board (no change)
- ◆ Business Unit and Commodity Group loss notifications and limit violations to also be sent to the President, instead of only to the Risk Management Committee
- ◆ Recommended changes to Policy Limits:
Note: Enron Corp. Aggregate VaR Limit - - - NO CHANGE REQUESTED - - - \$150 MM

	<u>Recommended Concentration Limit</u>	<u>Existing Concentration Limit</u>
<u>European Natural Gas & Electricity VaR Limit</u>	\$45 MM	\$35 MM

TRANSACTION APPROVAL PROCESS

- ◆ Rather than signing all deals, Enron Global Finance is only required to sign deals with funded capital greater than or equal to \$2.5 MM
- ◆ Deputy Treasurers are authorized to sign deals that do not require approval of ENE-OOC or ENE-Board of Directors on behalf of Enron Global Finance
- ◆ Minor change in approval authority to reflect consolidation of Enron Transportation Services and Enron Global Assets & Services into Enron Global Services
- ◆ Revised approval amounts and maturities used in E-DASH process



Enron Corp. Risk Management Policy

Proprietary and Confidential

August 14, 2001

Amended October 9, 2001

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Executive Summary of the Enron Corp. Risk Management Policy

This summary highlights selected information described more fully elsewhere in this Enron Corp. Risk Management Policy (the "Policy")¹. This summary does not contain all the information necessary to fully understand and comply with the risk management framework described herein. Employees should read the entire Policy, including the Appendices², to ensure they are in compliance.

Enron Corp. and its subsidiaries (the "Company") are exposed to market, credit, operational and liquidity/funding risks in the normal course of its business activities. This Policy establishes a framework under which the Company's exposure to risks shall be evaluated, managed and controlled, and pursuant to which capital will be allocated and preserved. The Policy focuses on four major types of risk: (a) market risk; (b) credit risk; (c) operational risk and (d) liquidity/funding risk.

As described in Section 5 of this Policy, these risks shall be managed on a portfolio basis for standard transactions via various market risk limit structures and credit approval processes, and for non-standard transactions via the Transaction Approval Process described in Appendix D and the Guarantee Approval Process described in Appendix E. This Policy provides an overview of various risk measurement tools and limits to be applied to these risks, and the roles and responsibilities for the key participants of the risk management framework.

Market Risk

No single risk statistic reflects all aspects of the risk that value will be lost due to a change in some market variable. Therefore, different risk metrics shall be used individually or in combination to provide a comprehensive view of market risk exposure. The Company manages its trading activities by segregating different types of risks in each position, and aggregating risks along Commodity Group lines across each Portfolio. The methodology and parameters employed in the application of specific risk metrics are described in this Policy, and may be updated by Risk Assessment & Control ("RAC") periodically to ensure best practices are employed in the Company's risk management processes. The Company's market risks are reported to the Board of Directors of Enron Corp. (the "Board") at all regularly scheduled meetings. Specific Loss Notification and Limit Violation reporting requirements are described in Section 4.1.2.3 of this Policy and summarized in the table below.

Credit Risk

Credit risk is a function of: (a) the value of the position exposed to default; (b) the proportion of this value that could be recovered in the event of a default and (c) the probability of default or shift in credit quality of a counterparty. RAC manages the limit structure for credit risk and reviews all credit exposures throughout the Company. The Company's credit risks are reported to the Board at all regularly scheduled meetings.

¹ Defined terms appear in this Policy with the initial letter of the term capitalized. Each defined term is listed alphabetically and defined in the Glossary of this Policy (see Section 8).

² Excluding actual market risk limit amounts due to confidentiality.

Operational Risk

Operational risk is defined as the risk of direct or indirect loss from inadequate or failed internal processes, people and systems, or from external events. An operational risk event may increase the Company's exposure to market, credit, liquidity, reputation, regulatory and legal risk. The Company's primary objective for monitoring its exposure to operational risk is to (a) identify the derivation of operational risk exposures and (b) to improve the Company's systems and processes to mitigate such risk. The Company shall develop systems and processes that enable it to better evaluate its operational risk.

Liquidity / Funding Risk

Liquidity/funding risk focuses on whether the Company is able to raise enough capital to meet its cash and collateral requirements. Margin activity under the Company's Trading Portfolio has a significant impact on the Company's funding requirements, and is often determined by changes in commodity prices. Consequently, the Trading Portfolio's Potential Future Cash Requirements based on a Monte Carlo Simulation of margin exposure is compared to the Future Available Cash and Borrowing Capacity across the Company to calculate the Liquidity Ratio. The Liquidity Ratio is the primary metric of the Company's liquidity/funding risk. A Liquidity Ratio Advisory Limit shall be implemented to act as a trigger for senior management's review and action.

Portfolios and Limit Structure

Risks shall be managed across the Company in the following Portfolios, with market risk limits established by either: (a) the Board of Directors of Enron Corp. (the "Board") or (b) the ~~Chief Executive Officer~~ Chief Risk Officer of Enron Corp. (the "~~CEO~~ Chief Risk Officer") in consultation with the Risk Management Committee (the "RMC"), as noted below:

Portfolio	Portfolio Limit	Concentration Limit	Enron Business Unit Limit ³	Commodity Group Limit
Trading	Board	Board <ul style="list-style-type: none"> Americas Natural Gas Americas Electricity European Natural Gas and Electricity Products Financials Emerging Businesses 	CEO <u>Chief Risk Officer</u> <ul style="list-style-type: none"> Enron Americas Enron Europe Enron Global Markets Enron Industrial Markets Enron Broadband Portland General Electric Enron Transportation Services 	CEO <u>Chief Risk Officer</u>
Merchant	N/A	N/A	N/A	N/A
Capital	N/A	Board <ul style="list-style-type: none"> Enron Stock transactions 	N/A	N/A
Regulated	Board	N/A	CEO <u>Chief Risk Officer</u> <ul style="list-style-type: none"> Portland General Electric Enron Transportation Services 	CEO <u>Chief Risk Officer</u>
Other Assets & Contracts	N/A	N/A	N/A	N/A

³ Enron Business Units and corresponding limits can be changed at any time by the CEO.

Market Risk and Liquidity Risk Limit Violations and Loss Notifications

Limit Violations and Loss Notifications are reported within one day after the occurrence of any of the following:

- VaR Limit Violations – if the actual VaR is in excess of the respective VaR Limit
- Expected Tail Loss Notification – if the actual Trading Portfolio Expected Tail Loss is greater than that implied by the Trading Portfolio VaR Limit
- Liquidity Ratio Advisory – if the Liquidity Ratio is less than 3.0 at 50% confidence level, or less than 1.5 at 99% confidence level
- Daily Loss Notifications – if the Daily Loss is in excess of the respective VaR limit
- Cumulative 5-Day Loss Notifications – if the net sum total of five-days of profit or losses is in excess of 225% of the respective VaR Limit
- Position Limit Violations – if the actual position is in excess of the respective position limit

The following table summarizes the authority to be notified upon the occurrence of each type of Limit Violation, Loss Notification or Liquidity Ratio Advisory as either: (a) the Board, (b) the CEO, or (c) the Risk Management Committee ("RMC"). All Portfolio and Concentration Limit Violations and all Portfolio Daily Loss Notifications are also reported to the Board at regularly scheduled meetings.

Limit Type	VaR	Expected Tail Loss	Liquidity Ratio	Daily Loss	Cumulative 5-day Loss	Net Open or Maturity/Gap Position
Portfolio	Board	CEO	CEO	Board	Board	N/A
Concentration	CEO	N/A	N/A	CEO	CEO	N/A
Business Unit	RMC President	N/A	N/A	RMC President	RMC President	N/A
Commodity Group	RMC President	calculated, but no limit	N/A	RMC President	RMC President	RMC President

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Roles and Responsibilities

Individuals or groups that play a key role in the Company's enterprise-wide risk management framework, as described in this Policy, are listed below. Their primary responsibilities are described in Section 6 of this Policy.

- Board of Directors of Enron Corp.
- Audit & Compliance Committee of the Board of Directors
- Finance Committee of the Board of Directors
- Chief Executive Officer of Enron Corp.
- Chief Risk Officer of Enron Corp.
- Risk Management Committee
- Enron Business Units
- Global Risk Management Operations (or other middle-office function)
- Accounting
- Legal
- Risk Assessment & Control
- Treasury/Global Finance
- Internal Audit

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* These are guidelines and may be updated periodically.

1 Introduction

Enron Corp. and its subsidiaries (the "Company")¹ are exposed to market, credit, operational and liquidity/funding risks in the normal course of its business activities. These business activities include, but are not limited to, wholesale services, retail energy services, and transportation and distribution services. It is the Company's philosophy to actively manage its business activities and the resulting risk exposures in a manner that is consistent with the Company's risk appetite. This comprehensive, enterprise-wide risk management policy (the "Policy") establishes a framework under which the Company's exposure to risks shall be evaluated, managed and controlled, and pursuant to which capital will be allocated and preserved. Employees are expected to act in a manner consistent with the Company's risk philosophy and to uphold this Policy in its entirety.

1.1 Objective

The objective of this Policy is to ensure that the Company's capital is allocated efficiently and that appropriate action is taken to preserve the Company's capital in accordance with its appetite for risk. Effective risk management enables the Company to maximize shareholder value by reducing volatility in the Company's earnings and minimizing the likelihood that the Company's net income and cash flows could decline to the point of financial distress.

1.2 Risk-Based Capital Allocation

The Company's capital shall be allocated with a comprehensive view toward risk and the positions taken by management across the Company. The Company's Risk Capital represents the capital required to cushion against potential losses arising from adverse changes in the value of assets or earnings capacity due to market factors, credit events and operational risks. The amount required to provide for unexpected losses under worst-case or extreme market conditions considering quantitative and qualitative factors described in this Policy must be considered in the allocation of the Company's Risk Capital.

Each transaction shall be evaluated according to this Policy, both on a stand-alone basis and on the basis of its incremental impact on the various Portfolios of the Company (see Section 2). This process ensures that the Company's allocation of Risk Capital is consistent with the Company's approved risk appetite.

1.3 Preservation of Capital

The Company shall preserve its capital by defining, measuring and controlling risk according to the provisions of this Policy. Specifically, the Company shall: (a) allocate capital according to market, credit, operational and liquidity/funding risks; and (b) limit the concentration of risks in any given commodity, counterparty, time period and geographic region.

¹ Defined terms appear in this Policy with the initial letter of the term capitalized. Each defined term is listed alphabetically and defined in the Glossary of this Policy (see Section 8).

2 Portfolios

During the normal course of business, the various Enron Business Units may enter into transactions, which create positions for the Company ranging from asset purchases to derivative transactions. The Company will manage the risk inherent in these positions on a portfolio basis across the Company. The various Portfolios are described below. The Risk Management Committee must approve any changes to the composition of these Portfolios.

2.1 Trading Portfolio

The Company's Trading Portfolio is designed to manage the Company's exposures related to commodity transactions, including: (a) the purchase, sale, storage and physical delivery of natural gas, electricity and other commodities included in Appendix A; (b) the provision of risk management services; and (c) the optimization of market arbitrage opportunities. These exposures shall be managed within approved limits. The Trading Portfolio's exposures are accounted for using the mark-to-market accounting method.

2.2 Merchant Portfolio

The Company's Merchant Portfolio is designed to manage exposures related to merchant investments in public and private companies. This portfolio includes equity, "equity-like," debt and "debt-like" instruments in the public and private sectors.

2.3 Capital Portfolio

The Company's Capital Portfolio is designed to manage exposures inherent in positions and transactions involving the Company's own stock, its issued debt, and its other funding transactions or derivatives thereof.

2.4 Transportation and Distribution Regulated Portfolio ("Regulated Portfolio")

The Company's Transportation and Distribution Regulated Portfolio ("Regulated Portfolio") is designed to manage exposures related to the business activities of the Company's subsidiaries and affiliates involved in transportation and distribution activities (e.g., natural gas pipelines and utilities).

Activities in the Regulated Portfolio may have specific accounting, legal and regulatory requirements that suggest separate application of risk management practices. Although separate application may be required, this Policy shall apply equally to these regulated activities, unless the Chief Risk Officer of Enron Corp. ("Chief Risk Officer") approves an alternate application. For example, functions that are generally performed by Global Risk Management Operations ("GRMO") as described in Section 6.6 may be performed by separate middle-office functions. For purposes of this Policy, any reference to GRMO shall incorporate and apply to any equivalent middle-office functions.

2.5 Other Assets and Contracts Portfolio

The Company's Other Assets and Contracts Portfolio is designed to manage exposures embedded in the Company's assets (investments, contractual arrangements, etc.) that are either accounted for on an accrual basis or are not otherwise captured in the other Portfolios described above.

This portfolio includes: (a) selected operating assets throughout the Company's network of domestic and international assets; (b) contracts that provide access to third-party assets and market-making activities; (c) off-balance sheet and contingent positions; and (d) transactions that are entered into for hedging purposes under SFAS 133.

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3 Risk-Based Capital Allocation

All decisions regarding the allocation of capital shall be based on a thorough analysis of market, credit, operational and liquidity/funding risks. These risks will be monitored and actively managed on a continuing basis under the guidelines established in this Policy. The Company may be exposed to other risks that are not specifically covered by this Policy. However, the Company manages those risks accordingly.

The Company's market risk limit structure is designed to align the Company's risk appetite with its business objectives. Approved market risk limits take into account potential or expected returns and the amount of capital required to provide for potential losses.

Specific processes to be utilized in the allocation of capital include: (a) the credit risk approval process described in Section 4.2 and Appendix B and Appendix C, (b) the Transaction Approval Process described in Section 5 and Appendix D, and (c) the Guarantee Approval Process described in Section 5 and Appendix E. These processes include the consideration of operational risk and liquidity/funding risk.

3.1 Risk Measurement for Market Risks

Market risk arises from the possibility that value will be lost due to a change in some market variable. Each Enron Business Unit and its middle office function, Global Risk Management Operations ("GRMO"), shall process and provide information to calculate the required risk metrics used to measure market risk. The results of these calculations shall be made available at the appropriate level, and provided to the head of the appropriate Enron Business Unit, Risk Assessment and Control ("RAC") and others as required by the Risk Management Committee. Although limits may not be specified for each metric, the results of these risk metrics shall be considered in the Company's overall assessment of risk and in the capital allocation process.

No single risk statistic reflects all aspects of market risk. Therefore, different risk metrics shall be used individually or in combination to provide a comprehensive view of market risk exposure. The methodology and parameters employed in the application of the risk metrics described below shall be established by RAC to ensure that best practices are employed in the Company's risk management processes. Any change in the application of these risk metrics must be approved by RAC. From time to time, RAC may also require other risk metrics not specifically addressed in this Policy to be used by Enron Business Units and GRMO to ensure that the Company's market risk is properly measured.

Market Risk Limits shall be established in accordance with Section 4.1.1 of this Policy, while monitoring and reporting requirements are described in Section 4.1.2 of this Policy.

3.1.1 Value-at-Risk

Value-at-Risk ("VaR") is a key indicator of potential exposure from adverse market moves in a normal market environment. The Company's approved standard VaR methodology uses a 95% confidence interval and assumes a one-day close-out horizon. Positions are characterized as Delta and Gamma, and outcomes are simulated one thousand times using Monte Carlo Simulation, with returns assumed to conform to a normal distribution.

Each Enron Business Unit is required to use the approved standard method described above, together with the Company's established calculation engine, to calculate VaR for each Commodity Group. Commodity Groups are a collection of individual commodities and positions having sufficient relationship and correlation to allow for their aggregation into a meaningful Benchmark Position. Statistical diagnostic review techniques, such as Back Testing, shall be performed as deemed necessary by RAC for any or all Commodity Groups to test VaR model efficacy. Developing markets or specific businesses may exhibit attributes that require an alternative method to calculate VaR. The Chief Risk Officer must approve the use of an alternate methodology.

VaR shall be applied as appropriate and calculated daily for positions within the Trading, Merchant, Regulated, and Capital Portfolios. VaR may also be determined to be an appropriate measurement tool for selected contractual positions included in the Other Assets and Contracts Portfolio, and shall be calculated as required by RAC.

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3.1.2 Extreme Value Theory

Extreme Value Theory ("EVT") examines the characteristics of extreme events, whose impact on a portfolio cannot be determined using the standard VaR metric. Extreme event risk is present in all areas of risk management, and its quantification is an important complement to standard statistical measures of risk such as VaR, which assume normal market conditions. Extreme value measurements shall be used to assist in sizing and calibrating limits such as those expressed as VaR, and to serve as a reference for management decision-making.

The Company's approved EVT methodology uses historical profits and losses and current positions to construct a probability distribution that represents both the level of risk at which the new distribution applies based upon current positions (referred to as Extreme Value at Risk or "EVaR"), and the expected loss beyond EVaR given extreme conditions (referred to as the Expected Tail Loss or "ETL"). EVaR and ETL shall be applied to the Trading Portfolio and to certain Commodity Groups as appropriate and monitored daily.

3.1.3 Stress Testing and Scenario Analysis

Stress testing provides an indication of potential exposure from sudden and extraordinary changes in market conditions, including those that would not necessarily be reflected in VaR measurements. Scenario analysis is based on historical and hypothetical economic events and systemic crises.

Stress testing and scenario analysis shall be used to capture price, basis, liquidity, volumetric and other risks associated with current or potential Portfolio positions. Portfolios containing options require specific attention, particularly due to their non-linear behavior. Traditional risk metrics such as VaR do not fully capture option risk or market risk resulting from extreme market movements. Stress testing and scenario analysis should include sensitivity analysis of option position attributes (Delta, Gamma, Vega, Theta, Rho and Eta) versus price, volatility and time changes, and resulting theoretical profit/loss.

Stress testing and scenario analysis shall be performed as required by the Chief Risk Officer. Where appropriate, RAC shall provide guidance on specific stress tests to be performed. The results may be determined by historic simulation, shifts of price or basis curves, shifts in VaR calculation parameters, or shifts based on specified economic scenarios. Each Enron Business Unit and GRMO shall perform stress testing at the level necessary to provide meaningful risk identification, drawing upon the insights of traders and risk managers. Scenario analysis shall be performed by RAC with information provided by the Enron Business Units and GRMO.

3.1.4 Net Open Position and Maturity/Gap Position

As indicators of volumetric exposure, non-statistical risk metrics such as position measurements provide additional information on an exposure's size and direction. Accordingly, these metrics facilitate the control and management of exposures that other risk metrics may not adequately represent.

Net Open Position and Maturity/Gap Position measurements shall be applied as appropriate and monitored daily for certain Commodity Groups. Metrics such as gross long position and gross short position shall also be calculated periodically to facilitate the evaluation of market segment liquidity risk. These risk metrics shall be calculated using a Benchmark Position calculation methodology approved by RAC.

3.1.5 Earnings-at-Risk

The Company's VaR methodology may be difficult to apply to positions not accounted for on a mark-to-market basis (i.e., positions that are accounted for on an accrual or other basis) or to positions that are illiquid. Earnings-at-Risk is a primary risk measurement tool for such positions, as it represents the extent to which earnings may vary over a specified time period. The applicable time period is customarily defined as

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the life of the asset or contract. The net economic Earnings-at-Risk shall be calculated for such positions as required by the Risk Management Committee. The underlying calculation will adopt the same method as the standard VaR metric, with the exception that an appropriate liquidation horizon, usually significantly greater than one day, shall be chosen as appropriate for the specific position.

Earnings-at-Risk measures do not form part of the established limit structure, although they shall be considered in an overall assessment of the Company's risk profile, risk appetite and required returns on risk.

3.1.6 Hedging or Transfer of Market Risks

For purposes of this Policy, hedging shall mean activities that reduce, transfer or convert one type of risk or position to another deemed more tolerable. This definition differs from an accounting definition and does not suggest that the hedge position would necessarily qualify for hedge accounting under Statement of Financial Accounting Standards No. 133.

If an Enron Business Unit incurs an exposure within a Portfolio other than the Trading Portfolio and wishes to hedge such exposure, it must do so by executing a transaction with the appropriate Authorized Trader in the Trading Portfolio. RAC shall be notified of any significant transactions for which the hedging transaction and the underlying position are reported in different Portfolios. All hedge positions should have an observable correlation with the underlying exposure, and should be rebalanced regularly to substantially neutralize the underlying exposure.

The Company manages its trading activities by segregating different types of risks in each position, and aggregating risks along Commodity Group lines across each Portfolio. If in the ordinary course of its business, an Enron Business Unit or trading desk incurs an exposure in the Trading Portfolio to an underlying commodity or financial instrument for which it does not have explicit trading authority, it must either: (a) hedge that exposure with the Authorized Trader who does have that specific authority, or (b) request approval from the Risk Management Committee to carry the position and manage the exposure. The Risk Management Committee together with the CEO may authorize this activity by approving a Commodity Group to be traded in that Enron Business Unit under a corresponding Commodity Group Limit. Such authorization may be restricted in some manner, with any such restrictions documented in a memo for the files that describes the nature of the position, the authorized size of the position (i.e., Net Open Position and/or Maturity/Gap Position limit) and the VaR limit for the position.

3.1.7 Foreign Currency and Interest Rate Exposure

The Company is exposed to foreign currency exposure and interest rate exposure in each of its Portfolios. The foreign currency desk shall manage the currency exposure of the Trading Portfolio, and the interest rate desk shall manage the interest rate exposure of the Trading Portfolio, with the exception of such positions in the Company's pipeline and domestic utility business units. Significant unhedged interest rate and foreign currency exposure elsewhere in the Company, whether mark-to-market exposure or overall economic exposure, shall be reviewed by the Risk Management Committee individually, and in the aggregate with the Trading Portfolio, to determine the appropriate risk management strategy for the Company's interest rate and foreign currency exposures.

The following provisions of this Policy refer to currency and interest rate risks embedded in the Portfolios or in the individual or consolidated financial statements of the Company. The sources of these risks with regard to foreign currency can be characterized broadly as including:

- i. Currency risk remaining in the positions and sub-portfolios that comprise the Trading Portfolio and that are denominated in currencies other than US dollars;
- ii. Currency risk in investments in overseas assets or projects, where the carrying value of the investment is denominated in currencies other than US dollars;
- iii. Currency risk in respect of earnings, after local expenses, in currencies other than US dollars, where no amount has been remitted, in US dollars, to the Company; and
- iv. Currency risk in cash balances held in currencies other than US dollars.

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The sources of these risks with regard to interest rate risk can be broadly characterized as including:

- i. Interest rate risk remaining in the net assets and liabilities, including settled cash, of the positions and sub-portfolios comprising the Trading Portfolios
- ii. Interest rate risk arising from cash-flow mismatches in the re-pricing profiles of funding transactions
- iii. Interest rate risk arising from funding requirements of contracts or obligations not accounted for on a mark-to-market basis

3.1.8 Market Parameters

All risk metrics and processes outlined in this Policy are derived from a combination of market parameters, such as prices, volatilities and correlations. If such parameters are outdated, or do not in some other way accurately reflect market conditions, risk and performance data derived from such market parameters will be distorted and the Company's ability to manage risk will be impeded. Consequently, upon request, each Enron Business Unit and GRMO shall provide RAC with evidence of all market parameters (e.g., curve validation) used by them in the calculation of Risk Metrics and in the measurement of profits and losses, including, but not limited to the following: (a) price and volatility curves, (b) correlation and risk factors, and (c) benchmark conversion factors. This evidence shall be verified by RAC at its discretion.

3.1.9 Model Maintenance and Review

Each Enron Business Unit shall follow the Company's modeling guidelines in the preparation and maintenance of any valuation models. Evidence of verification of all significant model assumptions and inputs used for pricing and measuring risk in structured transactions shall be provided to RAC upon request. RAC shall also oversee the Company's model review process, ensuring the appropriateness of the derivative pricing models and their underlying assumptions, and any other non-standard risk measurement models or calculations. This formalized model review process shall be developed during a transition period and implemented as directed by the Risk Management Committee.

3.2 Risk Measurement for Credit Risk

Credit risk is a function of: (a) the value of the position exposed to default, (b) the proportion of this value that could be recovered in the event of a default, and (c) the probability of default or shifts in credit quality. Limits and reporting procedures for credit risk are described in Section 4.2 of this Policy.

3.2.1 Mark-to-Market Credit Exposure

Mark-to-market exposure is the current replacement value of a contract that could be lost if a counterparty defaults today. The potential for a credit loss arises when a counterparty defaults on a contract that is in the money to the Company or is an asset of the Company at the time of default.

3.2.2 Counterparty VaR Exposure

Counterparty VaR exposure is the potential difference in the value of a current counterparty contract if fluctuations occur in such parameters as market prices, interest rates or exchange rates.

3.2.3 Physical Delivery Credit Exposure

Physical delivery exposure is the value of the physical product delivered to a counterparty prior to receiving payment for such product, whether or not the counterparty has been invoiced.

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3.2.4 Settlement Credit Exposure

Settlement exposure is the risk that payment will not be made by a counterparty as of the contractual due date.

3.3 Risk Measurement for Operational Risks

Operational risk is defined as the risk of direct or indirect loss from inadequate or failed internal processes, people and systems, or from external events. Operational risk overlaps with many other risk classes. An operational risk event might also increase the Company's exposure to market, credit, liquidity, reputation, regulatory and legal risk.

For purposes of this Policy, the definition of operational risk does not include strategic risk, asset operations risk or environmental risk. Strategic risk, asset operations risk and environmental risk shall be: (a) assessed for new positions as required under the Transaction Approval Process in Appendix D and (b) monitored and managed for existing positions by the Enron Business Unit responsible for the position.

The Risk Management Committee shall designate individuals in GRMO and each Enron Business Unit to work with RAC to develop systems and processes that enable the Company to better evaluate its operational risk. Operational risk will be evaluated based on various qualitative assessments and limited quantitative analysis until parameters and metrics necessary for quantitative measurement can be defined and implemented. The Company's primary objective for monitoring its exposure to operational risk is to (a) identify the derivation of operational risk exposures and (b) improve the Company's systems and processes to mitigate such risk. Guidelines and reporting procedures for operational risk are described in Section 4.3 of this Policy.

3.4 Risk Measurement for Liquidity/Funding Risk

Liquidity/funding risk focuses on whether the Company is able to raise enough capital (whether through debt, equity, or counterparty collateral) to meet its cash requirements, and is a function of funding liquidity and position liquidity. Margin deposits received and margin deposits required under the Company's Trading Portfolio have a significant impact on the Company's funding requirements, and are often determined by changes in commodity prices. Position liquidity refers to the extent to which a position can be liquidated quickly, and in large volume, without substantially affecting the position's price. Key determinants of the liquidity of a position and the cost of liquidation include: (a) the level of third-party interest and market activity in the asset, (b) the time period available to convert the asset to cash, (c) the size (value or volumes) of the asset, and (d) perception of the Company in the marketplace. Active management of funding requirements and capital availability should minimize funding shortfalls. See Section 4.4 for the limit structure and reporting guidelines.

The Liquidity Exposure Ratio ("Liquidity Ratio") is the primary metric of the Company's liquidity/funding risk to be implemented under a transition period determined by the Risk Management Committee. The Liquidity Ratio shall be calculated daily over a specified time period by dividing (a) the sum of the Company's Future Available Cash and Borrowing Capacity, by (b) the Company's Potential Future Cash Requirements. Future Available Cash shall represent the Company's current cash-flow forecast as determined by the Treasury/Global Finance department, considering operating and investing activities. Borrowing Capacity shall also be determined by the Treasury/Global Finance department, calculated as the sum of: (a) commercial paper; (b) uncommitted bank lines and loan sales lines; (c) letter of credit facilities; (d) net accounts receivable and accounts payable; (e) net price risk management assets; (f) inventory; (eg) shelf registrations for public debt issues; and (fh) shelf registrations for public equity issues. Potential Future Cash Requirements shall be calculated by the Trading Portfolio's risk systems and shall represent a simulation of margin exposure and collateral requirements for the Trading Portfolio.

Liquidity stress testing shall be performed periodically, as required by the Chief Risk Officer, to quantify the liquidity/funding risks associated with specific positions. Such stress testing may include specific asset liquidity stress tests to quantify the risks associated with illiquid positions. Results of liquidity stress testing will be made available to the CEO and to other parties at the discretion of the Chief Risk Officer.

3.5 Returns on Risk Capital

A fundamental premise of this Policy is that no major risk shall be assumed without due consideration for the expected return on that risk, both on an individual transaction basis and in terms of that transaction's impact on the aggregate risk profile of the Company. Risk and associated returns shall be assessed consistently in order to facilitate meaningful comparisons between businesses, asset classes and risk types.

Each Enron Business Unit, as a user of Risk Capital, must periodically report to the Chief Risk Officer how its capital has been used and what returns were realized on such capital. These results may be included in the reports made by the Chief Risk Officer to the Finance Committee at their regularly scheduled meetings. The following measurement methodologies and metrics are approved for use in determining returns on Risk Capital.

3.5.1 Return on Value-at-Risk ("RoVaR")

Return on Value-at-Risk ("RoVaR") is defined as aggregate profit and loss, divided by the average daily VaR for the same period. GRMO shall calculate RoVaR at least quarterly for each Commodity Group that the Enron Business Unit is authorized to trade and for all the Commodity Groups traded by the Enron Business Units in aggregate. These calculations shall be made in accordance with RAC guidelines, and the results of these calculations shall be provided to the Chief Risk Officer or his designee.

3.5.2 Credit Pricing and Return on Credit Risk

To enable the Company to accurately charge for and allocate a portion of the Risk Capital associated with credit risk, credit reserves shall be established to reflect potential credit losses in the event of counterparty default. These credit reserves shall be funded on a deal-specific basis at the discretion of the vice-president in charge of the credit risk management function in RAC by applying a probabilistic model that simulates defaults based on counterparty ratings and calculating expected losses over the term to maturity for transactions. Credit reserves will be assessed across the Portfolios and tested for adequacy on a monthly basis.

Return on credit risk represents the extent to which returns from a given class of credit risk exceed the market price for that credit risk. Commodity transactions should be priced to account for the customers' credit rating, thereby adequately compensating the Company for assuming this credit risk.

3.5.3 Return on Capital-at-Risk ("RoCaR")

Return on Capital-at-Risk ("RoCaR") represents the aggregate of expected returns against aggregate Risk Capital. This metric shall be applied as appropriate to facilitate the comparison of different types of transactions across the company using a common framework. RoCaR shall be considered in the Transaction Approval Process for non-standard transactions that is discussed in Section 5 of this Policy.

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4 Preservation of Capital

The Company shall preserve and safeguard capital from the impacts of market, credit, operational and liquidity/funding risks in accordance with its risk appetite. To preserve capital, measurement techniques and associated reporting standards shall be applied for each primary risk factor. A limit structure shall be applied for market, credit and liquidity/funding risks.

4.1 Capital Associated with Market Risk

The Company's capital is constantly exposed to the risk of loss that arises from movements in market prices, commodity volumes and other factors. Market risk shall be managed on a daily basis for transactions and positions within the Trading Portfolio, the Merchant Portfolio, the Capital Portfolio and the Regulated Portfolio, and on a periodic basis for the Other Assets and Contracts Portfolio as required by the Chief Risk Officer.

4.1.1 Limit Structure for Market Risks

Primary control of market risk is established through limits approved by the Board, the CEO, the Chief Risk Officer in consultation with the Risk Management Committee, and the Office of the Chairman of the appropriate Enron Business Unit. The risk appetite of the Company is established by senior management and ratified by the Board. It is the responsibility of senior management to engage in risk-taking activities in accordance with the Company's risk appetite within approved risk/return boundaries required by the Board, investors, lenders and credit rating agencies. These limits are used to promote the appropriate level of awareness by both the Company's senior management and Enron Business Unit personnel to ensure that risks are known, communicated and appropriately evaluated in light of the Company's business and risk management objectives and strategies.

Criteria considered in establishing risk limits shall include, among other factors, relevant market analysis, market liquidity, prior track record, business strategy, trader experience, appropriate implementation of a trader level limit structure, risk management infrastructure, and qualitative operational risk assessment.

The Company's market risk limits and sub-limits shall be applied on a daily basis as described in the following sections, based on the close-of-business positions at the following levels for each Portfolio, with each level being subordinate to the one(s) above it:

- i. Portfolio level
- ii. Market concentration level
- iii. Business unit level
- iv. Commodity Group level
- v. Trader/desk level

4.1.1.1 Portfolio Market Risk Limits ("Portfolio Limits")

The Board shall approve an aggregate VaR Limit for the Trading Portfolio and for the Regulated Portfolio ("Portfolio Limits"). The Board shall also approve an ETL Advisory Limit ("ETL Limit") for the Trading Portfolio. The Trading Portfolio limits as specified in Appendix A apply to the Company's entire Trading Portfolio, including certain activities in the pipeline and domestic utility business units. The Regulated Portfolio limits covering different positions within the pipeline and domestic utility business units are also specified in Appendix A. The other Portfolios described in Section 2 of this Policy do not have limits at the Portfolio level, although they may provide a VaR measurement at this level. They may, however, have limits applied to positions within their Portfolio, as noted in the following sections.

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4.1.1.2 Market Risk Concentration Limits ("Concentration Limits")

For certain Portfolios, the Board shall approve individual VaR limits subordinate to Portfolio VaR Limits representing the maximum risk appetite for specific markets or activities ("Concentration Limits"). These Concentration Limits aggregate risk into categories of positions under a methodology approved by the Risk Management Committee. Concentration Limits enable the Board to limit the Company's exposure to certain markets and activities, while providing management with the flexibility to establish and modify Enron Business Unit Limits and Commodity Group Limits as business strategies and markets change.

The Risk Management Committee shall ensure the Enron Business Unit Limits described in Section 4.1.1.3 of this Policy and Commodity Group Limits described in Section 4.1.1.4 of this Policy are allocated in a manner that provides for compliance with these Concentration Limits. Specific monitoring and reporting requirements in accordance with Section 4.1.2.2 of this Policy shall ensure these Commodity Groups are aggregated across the Company to facilitate the monitoring of compliance with Concentration Limits.

The Board shall approve Concentration Limits within the Trading Portfolio as specified in Appendix A, for the following categories: (a) Americas Natural Gas, (b) Americas Electricity, (c) European Natural Gas and Electricity, (d) Products, (e) Financials and (f) Emerging Businesses.

The Board shall approve a Concentration Limit on transactions captured within the Capital Portfolio related to Enron stock (see Appendix A). Other positions within the Capital Portfolio are subject to risk measurement, but are not subject to this limit.

4.1.1.3 Enron Business Unit Market Risk Limits ("Enron Business Unit Limits")

The Chief Risk Officer or his designee, in consultation with the Risk Management Committee, and the Chief Executive Officer shall determine an overall VaR limit for each Enron Business Unit ("Enron Business Unit Limits") holding a position in the Trading Portfolio or the Regulated Portfolio. These limits shall be expressed as amounts of aggregate VaR for the Commodity Groups approved for trading within that Enron Business Unit. The Enron Business Unit Limits are subordinate to Concentration Limits and Portfolio Limits. As a result, the risk taken within all of the Enron Business Units cannot in aggregate conflict with the appetite for risk in any individual Concentration Limit or Portfolio Limit approved by the Board. These limits shall be reviewed periodically by the Risk Management Committee and can be modified at any time by the Risk Management Committee and the CEO. Chief Risk Officer or his designee, in consultation with the Risk Management Committee, at any time at their discretion.

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4.1.1.4 Commodity Group Market Risk Limits ("Commodity Group Limits")

The Risk Management Committee together with the President must approve the individual Commodity Groups that will be traded within each Enron Business Unit, and the Chief Risk Officer or his designee shall approve well as the products that are authorized for trading within a specific Commodity Group (such products are hereinafter referred to as "Authorized Products"). See Appendix A for a listing of existing, approved Commodity Groups as of the date of the most recent amendment to this Policy.

The Chief Risk Officer or his designee shall determine whether a new product that an Enron Business Unit is proposing to trade is a standard product, easily combined with the other products in the same Commodity Group, or a unique product to the Company that needs to be placed in a new Commodity Group. The Risk Management Committee together with the ~~CEO~~ President may establish a new Commodity Group for a new product.

The Chief Risk Officer or his designee, in consultation with the Risk Management Committee, together with the CEO shall grant limits for individual Commodity Groups ("Commodity Group Limits") applicable for each Enron Business Unit with positions in the Trading Portfolio or in the Regulated Portfolio. Commodity Group Limits represent the limits for a Commodity Group within a specific Enron Business Unit, and shall be expressed as some combination of: (a) a maximum Net Open Position, (b) a maximum Maturity/Gap Position, (c) a maximum VaR, (d) a maximum EVaR and/or ETL, or (e) other metric recommended by the Risk Management Committee. RAC shall notify the appropriate individuals within the Enron Business Units and GRMO of any change in limits at least one day prior to the opening of trading for which the new limits are effective.

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Commodity Group Limits may be granted for the same Commodity Group to more than one Enron Business Unit, and accordingly, such limits shall be set at a level that ensures compliance with the Board approved Concentration Limits. Although more than one Enron Business Unit may be authorized to trade a single Commodity Group, only one Head Trader shall be designated for each Commodity Group across the Company, except for the pipeline and domestic utility business units who shall designate their own Head Traders. Such Head Trader and his staff are the only individuals authorized to trade with third parties on behalf of the Company. All other transactions in this Commodity Group across the Trading Portfolio, with the exception of the pipeline and domestic utility business units, must be executed with such Head Trader's desks.

4.1.1.5 Discretionary VaR

A maximum amount of VaR ("Discretionary VaR") specified in Appendix A may be allocated by the CEO/Chief Risk Officer or his designee and Risk Management Committee to the Enron Business Units, subject to the constraints imposed by the Concentration Limits approved by the Board as specified in Appendix A. Allocation of Discretionary VaR to increase Enron Business Unit Limits and Commodity Group Limits in excess of the Board approved Concentration Limits specified in Appendix A, must be approved by the Board as a reallocation of Concentration Limits.

4.1.1.6 Trader/Desk Level Sub-Limits ("Trader/Desk Sub-Limits")

The Enron Business Units with Commodity Group Limits may utilize a limit structure established by the Office of the Chairman of the Enron Business Unit at the trader and/or desk level ("Trader/desk Sub-Limits"). These sub-limits shall be subordinate to the Commodity Group Limits assigned to that Enron Business Unit. Trader/desk Sub-Limits facilitate monitoring and control of exposure to specific geographical regions and other components of market exposure as deemed necessary by the Office of the Chairman of the Enron Business Unit. The effective utilization of these limits as risk management tools by Head Traders shall be considered in determining operational risk and in allocating Risk Capital through the establishment of Enron Business Unit Limits and Commodity Group Limits.

These Trader/Desk Sub-Limits are not subject to the formal Limit Violation and Loss Notification requirements described in Section 4.1.2.3 of this Policy, nor are they required to be specifically reported in the reports described in Sections 4.1.2.2.1 or 4.1.2.2.2 of this Policy.

4.1.1.7 Market Risk Limit Structure for Other Portfolios

The Merchant Portfolio and the Other Assets and Contracts Portfolio are not subject to market risk limits, as those positions have been subject to individual review via the Transaction Approval Process or other ongoing management procedures. However, each Enron Business Unit shall provide RAC with all necessary information to quantify and monitor the market risk inherent in those transactions that are part of the Merchant Portfolio and the Other Assets and Contracts Portfolio, as directed by the Risk Management Committee. RAC shall perform certain analyses and reports on these Portfolios as further described in Section 6.8 of this Policy.

4.1.1.8 Exchange Limits

Each Enron Business Unit may be subject to limits and other requirements imposed by exchanges, including the New York Mercantile Exchange, the Chicago Board of Trade, the International Petroleum Exchange and the London Metals Exchange. All Enron Business Units shall comply with any such limits, as may be modified from time to time, and shall provide a periodic summary of compliance with such limits to the Company's legal department and to the Chief Risk Officer or his designee.

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4.1.2 Administration and Reporting of Market Risks

4.1.2.1 Limit Changes and Policy Modifications

The Board must approve any modifications of Portfolio Limits or Concentration Limits, as well as any changes, amendments, supplements or updates to this Policy. The Risk Management Committee is authorized to interpret and clarify this Policy in compliance with the Policy's stated objectives between meetings of the Board of Directors.

The Office of the Chairman of an Enron Business Unit may request an allocation of additional Risk Capital by submitting a memo to the Risk Management Committee justifying the allocation. All grants of additional Risk Capital must be made within the Portfolio Limits and Concentration Limits established by the Board. The Chief Risk Officer or his designee, in consultation with the Risk Management Committee and the CEO may, at their discretion, reallocate Enron Business Unit Limits and Commodity Group Limits in order to increase the limit of the requesting Enron Business Unit and, concurrently, remain in compliance with the Portfolio Limits and Concentration Limits. The new limits shall be effective no earlier than the trading day following the date of the request and must be ratified by the CEO.

4.1.2.2 Position Reporting

Another key objective of the Company's enterprise-wide risk management framework is to provide employees and managers with a comprehensive understanding of how the Company is positioned compared to various markets and exposures. This objective can only be achieved if the risks inherent in all of the Company's Portfolios are measured and reported in a meaningful fashion that facilitates the implementation of corporate risk mitigation strategies and supports informed decision making. The following reporting requirements (which may be modified by RAC on an ongoing basis to ensure best practices are applied throughout the Company) must be followed by all employees of the Company involved in risk management activities.

Reporting is the responsibility of GRMO or another middle office function for each Enron Business Unit. Moreover, each Authorized Trader who is responsible for complying with a specific limit must review the position reports for which they are responsible, prior to commencement of the next day's trading to ensure that their trading strategy for the upcoming day's activity is in compliance with their limits. Reporting of market risks shall generally be reported on a mark-to-market basis, regardless of the type of accounting actually applied to the transactions.

Certain federal and state regulatory requirements prohibit the Company's pipeline and domestic utility businesses from sharing certain information with affiliated non-regulated businesses. Consequently, reporting of such information for these specific Enron Business Units shall not be provided to other Enron Business Units. Any employee who has questions about marketing affiliate issues should immediately contact the vice-president for regulatory and legislative affairs or an equivalent officer at the appropriate Enron Business Unit.

4.1.2.2.1 Enron Business Units Daily Position Report

GRMO shall prepare, distribute and make available data from the Trading Portfolio and the Merchant Portfolio creating a daily report (the "Enron Business Units Daily Position Report"). The Enron Business Units Daily Position Report shall compare Portfolio Limits, Enron Business Unit Limits, and Commodity Group Limits for that Enron Business Unit to corresponding actual results, as well any other risk parameters required by RAC.

The amounts by which the mark-to-market value of a Commodity Group can change for unit changes in all market parameters over the term structure and on a net aggregate basis shall be disclosed either in the Enron Business Units Daily Position Report or its supporting schedules. For positions with option or non-linear risks, the concentration of sensitivities (Delta, Gamma, Vega, Theta, Rho and Eta) shall also be disclosed. The supporting schedules shall also detail any change in the valuation adjustments.

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4.1.2.2.2 Enron Concentration Limit Daily Position Report

In order to monitor each Concentration Limit, and to aggregate the Company's consolidated results of the Trading Portfolio on a Commodity Group basis, GRMO shall issue a daily report (the "Enron Concentration Limit Daily Position Report") that includes all positions within the Trading Portfolio consolidated across the Company by Commodity Group. The Capital Portfolio's Concentration Limit shall also be included in this report.

4.1.2.2.3 Regulated Portfolio Reporting

Each Enron Business Unit that manages positions included in the Regulated Portfolio must prepare, distribute and make available to RAC, under a transition plan governed by the Risk Management Committee, a daily report that compares limits to actual results, as well as any other risk parameters required by RAC. This Portfolio shall be reported on a mark-to-market basis, regardless of the type of accounting actually applied to the transactions.

4.1.2.2.4 Other Assets and Contracts Portfolio Reporting

Each Enron Business Unit that manages positions included in the Other Assets and Contracts Portfolio must prepare, distribute and make available to RAC, a monthly report that discloses Earnings-at-Risk and any other risk parameters as required by the Risk Management Committee. The preparation of this information for positions included in the Other Assets and Contracts Portfolio is new for most Enron Business Units and accordingly, the Risk Management Committee shall approve an extended transition plan addressing when each Enron Business Unit must begin providing this information.

The Risk Management Committee shall consider the impact of the separate Portfolio reporting when considering the risk of individual Portfolios. An underlying position in the Other Assets and Contracts Portfolio may be hedged with a transaction in the Trading Portfolio, or vice versa, as further described in Section 3.1.6. Consequently, a risk aggregation methodology shall be considered by RAC as the development of risk measurement and reporting for the Other Assets and Contracts Portfolio advances.

4.1.2.3 Limit Violation and Loss Notification Requirements

Any instances when (a) actual results are in excess of corresponding limits (hereinafter referred to as "Limit Violations"), (b) losses are in excess of corresponding stop-loss advisory limits (hereinafter referred to as "Loss Notifications"), or (c) when the ETL exceeds the ETL Limit (hereinafter referred to as "ETL Notifications") must be reported to the designated parties as described in the following sections.

The Head Trader responsible for compliance with the limits is responsible for providing a thorough written explanation of any Limit Violations, Loss Notifications, and ETL Notifications, as well as a plan for complying with the limit structure. Unless specifically authorized by the Risk Management Committee, the Head Trader must modify his risk-taking activities as quickly as possible to comply with the limits specified.

Based upon stress test results or other indicators of exposure, the Chief Risk Officer may require a full review by RAC of any position or group of positions. RAC also may determine that certain management notifications regarding trading results are required, in addition to those described herein. A summary of any review, along with corresponding recommendations from RAC, may be presented to the Risk Management Committee to facilitate their Risk Capital allocation to Enron Business Units, and other evaluation of individual Enron Business Units' risk-taking activities.

All Portfolio Daily Loss Notifications and a summary of Portfolio Limit Violations and Concentration Limit Violations, along with an analysis of Enron's market risks, shall be reported by the Chief Risk Officer to the Audit and Compliance Committee of the Board of Directors ("Audit Committee") and/or the Finance Committee of the Board of Directors ("Finance Committee") at regularly scheduled Audit Committee and Finance Committee meetings.

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4.1.2.3.1 Portfolio Limit Monitoring and Reporting

If any of the following situations occurs in regards to any Portfolio, such situation shall be reported immediately to the Risk Management Committee, ~~Chief Risk Officer~~, the President of Enron Corp. (the "President"), the CEO and others at their discretion: (a) the aggregate VaR exceeds the corresponding Portfolio VaR Limit causing a Limit Violation, (b) the net sum total of Daily Profit or Loss for each of the Commodity Groups assigned to that Portfolio exceeds the corresponding Portfolio VaR Limit triggering a Loss Notification, (c) the net sum total of Cumulative 5-Day Profit or Loss for each of the Commodity Groups assigned to that Portfolio exceeds 225% of the corresponding Portfolio VaR Limit triggering a Loss Notification, or (d) the ETL exceeds the ETL Limit for that Portfolio causing an ETL Notification. The occurrence of a situation under either (a) or (b) or (c) above shall also be reported immediately to the Chairman of the Board of Enron Corp. and the Chairman of the Finance Committee.

4.1.2.3.2 Concentration Limit Monitoring and Reporting

If any of the following situations occurs in regard to any Concentration Limit, such situation shall be reported immediately to the Risk Management Committee, ~~Chief Risk Officer~~, the President, the CEO and others at their discretion: (a) the aggregate VaR for the Commodity Groups assigned to that Concentration Limit exceeds the corresponding Concentration Limit causing a Limit Violation; (b) the net sum total of Daily Profit or Loss for each of the Commodity Groups assigned to a specific Concentration Limit exceeds the corresponding Concentration Limit; or (c) net sum total of Cumulative 5-Day Profit or Loss for each of the Commodity Groups assigned to a specific Concentration Limit exceeds 225% of the corresponding Concentration Limit.

4.1.2.3.3 Enron Business Unit Limit Monitoring and Reporting

If any of the following situations occurs in regard to any Enron Business Unit, such situation shall be reported immediately to the Risk Management Committee, the President and others at their discretion: (a) the aggregate VaR for Trading Portfolio positions within that Enron Business Unit exceeds the corresponding Enron Business Unit VaR Limit causing a Limit Violation, (b) the net sum total of Daily Profit or Loss for each transaction that is subject to the Enron Business Unit Limits exceeds the corresponding Enron Business Unit VaR Limit, or (c) the net sum total of Cumulative 5-Day Profit or Loss for each transaction that is subject to the Enron Business Unit Limit exceeds 225% of the corresponding Enron Business Unit VaR Limit.

4.1.2.3.4 Commodity Group Limit Monitoring and Reporting

If one of the following occurs in regard to any Commodity Group authorized to be traded within an Enron Business Unit, such situation shall be reported immediately to the Risk Management Committee, the President and others at their discretion: (a) any Net Open Position, Maturity/Gap Position or VaR for the positions within the Enron Business Unit exceeds the corresponding limit for that Commodity Group within that Enron Business Unit causing a Limit Violation, (b) the Daily Profit or Loss for that Commodity Group in that Enron Business Unit is a loss that exceeds the corresponding VaR limit, or (c) the Cumulative 5-Day Profit or Loss is a loss for that Commodity Group within that Enron Business Unit that exceeds 225% of the corresponding VaR limit.

4.1.2.3.5 Trader/Desk Sub-limit Monitoring and Reporting

GRMO shall provide limit monitoring and reporting to the Head Traders as appropriate for any Trader/desk level limits established by the Office of the Chairman of the Enron Business Unit. The formal documentation of loss notifications and limit violations for Trader/desk level limits is not required under this Policy.

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4.2 Capital Associated with Credit Risk

The capital required to support credit risk shall be quantified, administered and reported as noted in the following sections of this Policy. RAC develops and administers credit policies, assesses credit quality, approves counterparty credit risk, establishes appropriate limits and monitors counterparty credit exposures for each Portfolio. The Merchant Portfolio is subject to the Transaction Approval Process and ongoing portfolio analysis performed by RAC. Any Merchant Portfolio credit exposures are identified through these processes. The Regulated Portfolio has its own unique credit procedures to comply with regulatory requirements. Credit exposures across all Portfolios shall be aggregated and reviewed by RAC on a regular basis, under a transition period to be governed by the Risk Management Committee.

RAC may utilize credit mitigation techniques to effectively manage credit risk and to protect the Company in the event of counterparty defaults. Accordingly, RAC may transfer credit risk by executing credit linked structured deals or credit derivative trades as well as by securing insurance or monetizing transactions. Alternatively, RAC may attempt to reduce or mitigate counterparty exposure by: (a) collecting collateral in the form of cash, letters of credit or cash equivalents, (b) mitigating credit risk through bank guarantees, and (c) accepting other security as negotiated and agreed with a counterparty.

4.2.1 Limit Structure/Guidelines for Credit Risk Assessment

Assessing counterparty creditworthiness is an integral part of determining the Company's credit risk. RAC has developed various guidelines and standards described in the following sections for internal ratings, credit limits, tenor limits and counterparty reassessments to assist in limiting and monitoring credit exposure. RAC personnel conduct all assessments of counterparty creditworthiness.

Following an initial assessment of a counterparty's creditworthiness, RAC personnel monitor changes in the counterparty's financial condition, including qualitative factors that would affect the initial assessment. The timing of the review cycle is a function of the risk level of the products involved, the credit quality and activity of the counterparty and the counterparty's credit history with the Company. As a result, the reassessment of an active counterparty is a matter of analyst discretion, but, at a minimum, counterparties with an exposure over \$50 million shall be reassessed at least semi-annually. In addition, non-investment grade counterparties shall be reassessed at least annually, while investment grade counterparties should be reassessed at least bi-annually. The same review process and approval levels indicated below shall apply to a counterparty's reassessment.

4.2.1.1 Internal Ratings

As part of the counterparty approval and assessment process, RAC shall assign each counterparty a credit risk rating (an "E-Rating") on a scale of 1 to 12 (see Appendix B). The primary objective of establishing counterparty E-Ratings is to provide a framework for approving credit risk and for monitoring the quality of the Company's portfolio of credit risk. Consistent application of the E-Rating framework shall ensure the consistency of credit risk assessments across counterparties. In determining E-Ratings, RAC shall review quantitative and qualitative counterparty information. Such information includes, but is not limited to:

- i. Published credit rating (e.g., Standard & Poors, Moody's and other rating agencies)
- ii. Financial statements
- iii. Financial ratio analysis
- iv. Management expertise
- v. Rank within industry
- vi. Reputation
- vii. Strategic direction
- viii. Trading activities and controls

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ix. Sovereign risk

If public credit ratings are available, RAC shall utilize the public ratings as a benchmark when establishing an E-Rating. Additional quantitative data may be analyzed with a financial scoring model that calculates a risk grade for a counterparty against a representative peer group based on profitability, liquidity, debt service and leverage. RAC shall utilize a financial analysis management system as approved by the vice-president in charge of the credit risk management function in RAC, in conjunction with other tools that combine judgmental and factual data about a borrower to analyze creditworthiness. These key quantitative results impact the final E-Rating assigned to a counterparty. However, the quality of the creditworthiness assessment is often contingent upon the availability of financial or public information.

Qualitative data shall be obtained from external sources such as reference materials, interviews with counterparty management, analyst commentary and other sources providing tangible insight. The strength and vision of the counterparty's management are critical subjective factors in assessing the viability of the counterparty's business. This information compliments RAC's knowledge of the counterparty gained through quantitative analysis.

4.2.1.2 Credit Limits

In assessing counterparty creditworthiness, RAC shall establish one global Credit Limit for each active counterparty. These limits provide a framework for monitoring exposure against limits and managing the Company's concentration of exposure to a particular counterparty or group of counterparties. Credit limits are approved and governed by the Credit Risk Procedures reflected in Appendix C and are subject to review and adjustment at the discretion of the vice-president in charge of the credit risk management function in RAC.

Both quantitative and qualitative information can provide input to RAC's decision on limits. The Company's risk appetite for a particular counterparty is impacted by counterparty's credit profile, the volume of business the Company expects to transact with the counterparty and the counterparty's relative size in relationship to other participants in the applicable industry. Various other Credit Limits may be established for a counterparty based on the level and type of trading activities conducted by the Company and that counterparty. These limits may be reflected as contractual thresholds or established for internal guidance purposes. Guidance Credit Limits are used so that RAC can accurately monitor and manage the overall credit risk for a counterparty, while contractual limits are used to manage risk within specific contract or transactions. Counterparty Credit Limits shall be captured and maintained by RAC to facilitate effective monitoring and reporting and shall be filed in a counterparty's credit file.

4.2.1.3 Tenor Limits

In addition to establishing a global Credit Limit for each counterparty, RAC shall set one global Tenor Limit (i.e., maximum term to maturity) for active counterparties. Tenor limits provide acceptable risk for long-term transactions in which credit risk increases with maturity due to: (a) greater probability of a counterparty default, (b) higher volatility or change in market prices that leads to increased credit exposure, and (c) larger volumes on average for longer-term deals. RAC also retains the flexibility to restrict the tenor of specific products as appropriate.

RAC approval authority is outlined in the table set forth in Appendix C, and is subject to review and adjustment at the discretion of the vice-president in charge of the credit risk management function in RAC.

4.2.2 Administration and Reporting for Credit Risks

A number of resources and monitoring tools are utilized to assist RAC in the credit management process, including the Credit Aggregation System ("CAS") and counterparty credit files. Other internal or external analytical tools are also available to assist with counterparty credit assessment. To the extent a counterparty's exposure exceeds its pre-assigned limit, the excess should be reported to the Chief Risk Officer or his designee.

RAC shall prepare various reports to quantify and report significant credit risks created by the Company's trading activities and to summarize critical credit risk indicators. These reports shall be provided to the Chief

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Risk Officer upon request so that he can determine the form and manner in which such reports will be made available to senior management and the Board. These reports may include, but are not limited to, credit reserves, top twenty-five counterparty exposures, E-Rating exposures, industry exposures, counterparty concentrations and non-performing or distressed assets. In addition to counterparty credit exposures, RAC is responsible for periodically reporting exceptions to contractual requirements to the Chief Risk Officer. The Chief Risk Officer shall review and approve the level of the Company's credit reserves monthly.

4.2.2.1 Documentation Approval

Various forms of agreements such as master contracts or confirmations support counterparty relationships and specific transactions. In order to limit the Company's credit risk exposure, RAC shall approve the credit provisions included in such documents and actively participate in the negotiation of the documents. Agreements such as master firm purchase/sale agreements, International Swap Dealers Association (ISDA) master agreements and other master contracts shall contain credit provisions authorized by RAC. Some of the major provisions impacting credit risk include: (a) netting provisions, (b) provisions relating to the perfection of collateral and security interests, (c) Material Adverse Change ("MAC") clauses, (d) cross default provisions, (e) set-off clauses, (f) provisions relating to the right to access and receive data, (g) provisions relating to the right to audit, and (h) provisions relating to exposure threshold(s).

4.2.2.2 Credit Aggregation System ("CAS")

CAS enables RAC to record Credit Limits and monitor end-of-day credit exposure. CAS aggregates counterparty exposure globally and displays active transactions from business unit source and back office accounting systems. CAS also allows RAC to maintain information on credit enhancements, contractual agreements, netting rights and any other relevant counterparty information, as well as enabling RAC to prepare reports on exposures by size, exposures by Enron entity, exposures by product, collateral requirements and credit watch list participants. Exception reports can also be generated. Approved E-Ratings, Credit Limits and Tenor Limits are captured and maintained in CAS. Counterparty collateral and guarantees are also captured and maintained in CAS to ensure monitoring and compliance.

4.2.2.3 Counterparty Credit Files

Credit files shall be created and maintained, as necessary, for each counterparty with a trading relationship governed by this Policy. Credit files provide the primary support for credit approval and credit risk decisions. To this end, files shall support the assessment of counterparties' creditworthiness, including assessed E-Ratings, Credit Limits, and Tenor Limits, and shall contain sufficient information to explain the current status of a counterparties' credit relationship with the Company. Credit files also may include applicable financial statements, correspondence, rating agency reports, research, executed agreements and guarantees, corporate resolutions and any other information as deemed appropriate. These files are confidential in nature and are controlled by RAC.

4.2.2.4 Credit Reserve Monitoring

As described in Section 3.5.2 of this Policy, the credit risk management function in RAC shall apply a probabilistic model that simulates defaults based on counterparty ratings and calculating expected losses over the term to maturity for transactions. Credit reserves will be assessed across the Portfolios and tested for adequacy on a quarterly basis. If the credit reserve that the Accounting department records for the quarter is over 10% more or less than the credit reserve per the model simulated by RAC, the CEO shall be notified by the Chief Risk Officer to ensure he is aware of any subjective issues considered in the Company's credit reserve analysis.

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4.3 Capital Associated with Operational Risk

Operational risk losses may include the costs to fix an operational problem, payments to third parties, write downs, latent losses and contingent losses. The Company shall maintain a rigorous control environment to manage and limit exposure to operational risk. This protects the Company from additional market, credit and liquidity exposures arising from operational failures.

4.3.1 Guidelines for Operational Risk

Operational risk is not subject to limits under this Policy. RAC, Enron Assurance Services, and Information Technology Compliance departments shall provide an independent focus on the operational risk management and shall work closely with each Enron Business Unit and GRMO to identify, assess, categorize, quantify and mitigate exposure to operational risk. The collection of internal loss data will allow a transition, over time, to more sophisticated measurement methodologies. Until internal loss information is available, the assessment of operating risk will be based on a qualitative judgment of the adequacy of the control environment and limited quantitative analysis. This assessment of operational risk shall be considered in the Risk Capital allocation process when the Risk Management Committee establishes Enron Business Unit Limits and when RAC establishes Credit Reserves. A list of the primary operational risk considerations is included in Appendix G of this Policy.

4.3.1.1 Segregation of Duties.

Enron Business Units shall keep segregated from the business groups or individuals entering into transactions each of the following activities: recording and aggregation of transactions; preparation, issuance and verification of the Company or third-party documentation; reporting of positions and Commodity Group information; review of the reasonableness of prices and models, periodic validation of prices from independent market sources; monitoring of limits; physical and/or financial settlement of transactions; reconciliation of accounts; and preparation of financial statements.

4.3.1.2 Fundamental Operating Standards

The organizational structure for the origination, administration, review and approval of risk exposures is designed to provide a clear segregation of responsibility and accountability among risk-taking and middle-office risk management personnel. Enron Business Units shall comply with the Company's Fundamental Operating Standards contained in Appendix F, as such standards may be updated from time to time. GRMO is responsible for effective implementation of the risk management framework and adherence to this Policy. The independent risk management function, RAC, is responsible for oversight of the risk management activities throughout the Company to ensure compliance with the Policy.

4.3.1.3 Code of Ethics

All employees of the Company shall transact business with the highest integrity and in accordance with the ethical values set forth by the Company. In particular, each employee shall comply with the Company's Code of Ethics that includes the Company's policies on the following matters:

- i. Principles of Human Rights
- ii. Securities Trades by Company Personnel
- iii. Business Ethics
- iv. Confidential Information and Trade Secrets
- v. Safety
- vi. Use of Communication Services and Equipment
- vii. Internet Security

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- viii. Governmental Affairs and Political Contributions
- ix. Consulting Fees, Commissions, and Other Payments
- x. Compliance with the Foreign Corrupt Practices Act
- xi. Compliance with Antitrust Laws
- xii. Compliance with Environmental Laws
- xiii. Conflicts of Interests, Investments, and Outside Business Interests of Officers and Employees
- xiv. Responsibility for Reporting
- xv. Compliance; Administration

These policies may be amended, altered or terminated by the Company at any time.

4.3.1.4 Information Systems Support and Business Continuity Planning

The Company shall have adequate information systems in place to support risk management activities. The Company shall review thoroughly all material risks associated with business disruption in each Enron Business Unit's field of endeavor and establish prudent guidelines to ensure business continuity in case of operational failure of critical systems.

4.3.2 Administration and Reporting for Operational Risks

As discussed in Section 3.3, a framework to better evaluate the Company's exposure to operational risk will be developed. This framework will include reporting requirements that address exposures to and actual losses from operational risk.

All Enron Business Units are required to perform self-assessments of operational risk quarterly or as otherwise required by RAC. Enron Assurance Services, Information Technology Compliance and RAC shall review the scope of each self-assessment. The Risk Management Committee shall consider this self-assessment and other indicators of operational risk when allocating capital to the Enron Business Unit Limits.

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4.4 Capital Associated with Liquidity/Funding Risk

Liquidity/funding risk arises from the potential that funding requirements will exceed funding availability for a given time period. Funding requirements may vary over time as a result of: (a) exchange margin requirements, collateral obligations and collateral receivables primarily related to Trading Portfolio activities, (b) new investments, (c) the payment of interest and dividends, and (d) the maturing of debt and other obligations. Funding availability may vary over time as a result of: (a) available cash, (b) access to capital markets, (c) available collateral and (d) the time required to convert positions to cash or liquid assets.

The Company shall use the Liquidity Ratio, liquidity stress testing and other methods as specified by the Chief Risk Officer to measure liquidity/funding risk.

4.4.1 Limit Structure for Liquidity/Funding Risk

The CEO shall approve an advisory limit for liquidity/funding risk ("Liquidity Ratio Advisory Limit") to be implemented under a transition period approved by the Risk Management Committee. This shall be based on the Liquidity Ratio discussed in Section 3.4 of this Policy. The Liquidity Ratio shall be calculated using two different assumptions to derive the Trading Portfolio's Potential Future Cash Requirements, the denominator of the calculation: (a) a 50% confidence level, and (b) a 99% confidence level.

4.4.2 Administration/Reporting for Liquidity/Funding Risk

The Liquidity Ratio shall be calculated on a daily basis and reported by RAC to the CEO, the Chief Risk Officer, and the Treasury department designee. If the Liquidity Ratio is (a) less than 3.0 using a 50% confidence level to calculate Potential Future Cash Requirements or (b) less than 1.5 using a 99% confidence level to calculate Potential Future Cash Requirements, the Chief Risk Officer shall provide a Liquidity Ratio Advisory to the CEO and others at his discretion. The CEO shall direct senior management to take certain actions to mitigate the Company's liquidity/funding risk.

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5 Requests for Allocation of Risk Capital

All Company transactions shall be characterized as either standard or non-standard transactions. Standard transactions are: (a) routine transactions executed in the ordinary course of business that can be easily valued on a daily basis, (b) authorized under the market risk Portfolio Limits, and (c) executed in accordance with the credit risk procedures contained in this Policy. Non-standard transactions include those that are unusual or require a capital investment at the outset of the transaction or during its term. Non-standard transactions may be complex and require ad hoc consideration and specific approval as specified by the Transaction Approval Process attached hereto in Appendix D.

RAC employs different procedures and guidelines for the analysis of deals classified as standard transactions than are applied for deals classified as non-standard transactions. Any issues regarding the characterization of a transaction as standard or non-standard should be directed to RAC and addressed prior to or upon commencement of negotiations. RAC determines whether a transaction is standard or non-standard, and this assessment is qualitative. Prior to execution, each transaction shall be analyzed sufficiently to enable the different types of risk to be identified and measured.

5.1 Portfolio Risk Capital

Market risk limits assigned to each level of the Company's limit structure represent allocations of Risk Capital. As such, the Enron Business Unit that proposes the addition of a new Commodity Group or new product shall perform a cost/benefit analysis. This analysis shall be reviewed by RAC and by each of the relevant risk management functions. This analysis shall include not only the business strategy and summary of specific risks inherent in this business activity, but also an assessment of the incremental costs and stresses upon the risk management infrastructure necessary to adequately control risk in compliance with this Policy, with recognition given to additional strain placed on the existing risk management environment by the new activity and the impact of a new activity on operational risk. RAC shall present its recommendations to the Risk Management Committee for final approval. A similar analysis of the returns on Risk Capital for individual Commodity Groups and Portfolios shall be prepared on an ongoing basis to support the continued evaluation of the Risk Capital allocation process, as described in Section 3.5 of this Policy.

Approval of credit risk exposure and operational risk exposure also represents allocation of Risk Capital. However, credit risk limits are not assigned on a portfolio basis; instead individual transactions are subject to credit review as specified in Sections 4.2 and 5.2 of this Policy.

5.2 Transaction Specific Risk Capital

5.2.1 Approval Process for Standard Transactions

Standard transactions generally include those documented on approved confirmations, valued in core systems and established in business units within the Company. RAC approves the execution of standard transactions either directly with commercial personnel or through the Company's global Internet-based transaction systems. All counterparties must be pre-approved by RAC for online trading. Online trading shall incorporate controls within the system to review Credit Limits and Tenor Limits as well as product approvals prior to allowing counterparties to execute transactions. For deals executed other than online, commercial personnel are responsible for (a) obtaining approval from RAC prior to executing transactions that expose the Company to credit risk and (b) understanding the current credit terms for executing transactions with a counterparty. RAC shall provide verification of credit trading terms or specific transaction approval upon request.

The transaction approval process may vary by Enron Business Unit depending on the quality of counterparties as well as the liquidity and volatility of products. In some circumstances, RAC may maintain watch lists to highlight counterparties that require approval prior to trade execution as well as to specify counterparties with which deals may not be executed. RAC will make these reports available on a company-wide basis on RAC's intranet web site and in hardcopy format. If a counterparty is referenced on a watch list

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or has not transacted with the Company for six months, then commercial personnel must contact RAC for specific transaction approval prior to trade execution. Generally, counterparties are listed on these reports for one or more of the following reasons: (a) the counterparty's credit is near or in excess of its global Credit Limits; (b) the counterparty is subject to credit enhancement requirements; and/or (c) the counterparty is not creditworthy to transact without RAC's direct involvement and evaluation.

Upon receiving a request to approve a standard transaction, RAC should evaluate the incremental credit exposure of the proposed deal with the counterparties' credit exposure to determine if the risk will be within the established global Credit Limits. If the aggregated exposure is within Credit Limits, the transaction may be approved. RAC will also consider offsetting positions when determining the credit risk involved with the proposed transaction. When a transaction requires credit enhancement, commercial personnel or RAC should disclose the requirements to the counterparty prior to executing the transaction.

5.2.2 Approval Process for Non-Standard Transactions

In certain circumstances, the Company enters into non-standard transactions. Criteria for identifying these types of deals include:

- i. Capital expenditures required at the inception or during the term of the proposed transactions
- ii. Embedded funding in the deal structure using current price curves
- iii. Drafted or non-standard documentation
- iv. Customized valuation (i.e., not valued by core systems)
- v. Outside credit and market risk limits
- vi. Expenditures in a business that is not pre-approved
- vii. Expenditures that are outside a pre-approved capital budget

Non-standard transactions have an approval process similar to non-budgeted capital expenditures. In order to determine the proper approval level of senior management, non-standard structured transactions must comply with the Transaction Approval Process attached hereto as Appendix D. RAC will determine the risk-adjusted capital amount for the transaction by evaluating the credit and market risks as well as the upfront and implied capital requirements for the transaction.

Enron Corp. is requested from time to time to issue credit support instruments on behalf of its subsidiaries, affiliates and unaffiliated third parties in the furtherance of the foregoing parties conducting business in the marketplace. These credit support instruments include, but are not limited to, guarantees, letters of credit, letters of indemnity and comfort letters. The Guarantee Approval Process described in Appendix E sets forth the approval requirements for the issuance of Enron Corp. credit support.

Procedures for compliance with, and daily administration of, the Guarantee Approval Process periodically shall be reviewed and revised, as appropriate, by the Global Finance department and RAC, and approved by the Office of the Chairman of Enron Corp., the Chief Financial Officer or the Treasurer. For the purposes of this policy, a certification by the Office of the Chairman, the Chief Financial Officer, the Treasurer or any Deputy Treasurer, to the effect that this policy has been complied with in connection with the issuance of any Financial Guarantee or Performance Guarantee shall be conclusive evidence of such compliance and may be relied upon by all persons interested in such Financial Guarantee or Performance Guarantee.

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6 Roles and Responsibilities

Corporate governance is a primary consideration of this Policy, as without established reporting relationships and defined responsibilities, established systems, methods and rules are of little value. The primary governing bodies that participate in the Company's risk management process are described in this Section.

6.1 Board of Directors of Enron Corp. (the "Board")

The Board is accountable to the shareholders of the Company and assumes overall responsibility for the management of the Company. By establishing the risk management guidelines used by the Company, including the Transaction Approval Process and this Policy, the Board ensures the Company's risk-taking activities are consistent with its strategies and that Risk Capital is properly allocated and preserved. The Board delegates the day-to-day execution of its risk management responsibilities to the Company's senior management.

The Board's risk management responsibilities include, among others things:

- i. The establishment of an overall framework for the evaluation, management and control of risk in capital allocation and capital preservation decisions through the approval of risk management policies and processes, including this Policy and the Transaction Approval Process
- ii. The establishment of specific Portfolio Limits and Concentration Limits, as deemed necessary, to ensure that the Company's risk-taking activities are consistent with the risk appetite of the Board
- iii. The evaluation and approval of specific transactions in accordance with the Transaction Approval Process
- iv. The review and approval of recommendations of its working committees

The Board holds regularly scheduled meetings throughout the calendar year. The Board may also hold special meetings to address and resolve issues requiring consideration and/or approval that cannot be deferred until the next scheduled meeting. The Board has delegated much of its responsibility for risk management, including the implementation of this Policy, to the CEO.

6.1.1 Finance Committee of the Board of Directors ("Finance Committee")

The Finance Committee is responsible for monitoring the Company's finance activities. The Finance Committee's risk management responsibilities include, among other things:

- i. The review, monitoring and development of recommendations to the Board concerning the Company's risk management policies and processes, including this Policy and the Transaction Approval Process
- ii. The evaluation of risks incurred by the Company to ensure these risks are appropriate and consistent with the Company's overall business strategies and the risk appetite of the Board

The Finance Committee may, at its discretion, make recommendations relating to risk management activities to the Board. The Chief Risk Officer is responsible for presenting a summary of the Company's market and credit risks to the Finance Committee at each of its regularly scheduled meetings. This ensures that the Finance Committee and the Board understand the risks inherent in the Company's activities. The summary presented by the Chief Risk Officer shall include a review of any significant changes to this Policy, as well as a summary of senior management's recommendations regarding specific Risk Capital allocation issues. The Chief Risk Officer also reports periodically to the Finance Committee on the returns achieved by the Company relative to expectations. Certain reports on Loss Notifications and Limit Violations will be sent to the Chairman of the Finance Committee between regularly scheduled meetings as required by Section 4.1.2.3 of this Policy.

6.1.2 Audit and Compliance Committee of the Board of Directors ("Audit Committee")

The Audit Committee operates under a written charter adopted by the Board and is responsible for overseeing the Company's financial reporting, internal controls and compliance processes. Risk management responsibilities of the Audit Committee include reviewing the Company's administration of and compliance with the parameters established by this Policy.

The Chief Risk Officer shall present summaries of market risk limit notification and limit violation activities of the Company and any significant changes to this Policy at each regularly scheduled meeting of the Audit Committee.

6.2 Chief Executive Officer of Enron Corp. (the "CEO")

The CEO is responsible for the overall management of the Company, including the execution and implementation of and compliance with the Board's policies and directives. The CEO's risk management responsibilities include, among other things:

- i. The establishment of an overall framework for the Company's implementation of the risk management policies and processes established by the Board, including compliance with the Board approved Portfolio Limits and Concentration Limits
- ~~ii. The establishment, together with the Risk Management Committee, of specific Enron Business Unit Limits and Commodity Group Limits to ensure that the Company's risk-taking activities are consistent with the risk appetite of the Board~~
- ii. The review and approval of transactions as prescribed by the Transaction Approval Process

The CEO has delegated much of his risk management responsibilities to a variety of corporate and Enron Business Unit functions, as described in this Policy.

6.3 Chief Risk Officer of Enron Corp. (the "Chief Risk Officer")

The Chief Risk Officer reports to the CEO, has dotted line reporting responsibility to the Board and is a member of the Risk Management Committee. The Chief Risk Officer's management responsibilities include, among other things:

- i. The implementation and oversight of the Company's risk management policies and processes
- ii. The establishment, in consultation with the Risk Management Committee, of specific Enron Business Unit Limits and Commodity Group Limits to ensure that the Company's risk-taking activities are consistent with the risk appetite of the Board
- iii. The determination of whether a new product is a standard product that can be combined with an existing Commodity Group or whether a new Commodity Group must be established
- iv. Approval of products that are authorized for trading within a specific Commodity Group
- v. The reporting to the Board and its working committees on the Company's compliance with this Policy and other relevant information related to the company's risk management function

Some of the Chief Risk Officer's responsibilities are prudently delegated to RAC as described in Section 6.8 of this Policy.

6.4 Risk Management Committee

The Risk Management Committee reports to the CEO, and its membership includes the Chief Risk Officer and such other individuals as determined by the CEO. The Risk Management Committee's risk management responsibilities include, among other things:

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- i. ~~The establishment and review of systems and controls to measure risk and monitor compliance as required by this Policy~~
- ii. ~~The establishment, together with Consultation with the CEO/Chief Risk Officer regarding, of specific Enron Business Unit Limits and Commodity Group Limits, which in aggregate do not conflict with the Board approved Portfolio Limits and Concentration Limits~~
- iii. The approval of individual Commodity Groups that may be traded within each Enron Business, as well as the products that are authorized for trading within a specific Commodity Group
- iv. The designation and management of Head Traders (see Section 6.5.2 below) for each Commodity Group in the Trading Portfolio
- v. The approval, together with the CEO, of new Commodity Groups
- vi. The periodic review of Company positions that need management attention to ensure that reorganizations, transfers, and employee turnover do not interfere with the active management of all of the Company's positions, contracts, investments, assets and liabilities.

The Risk Management Committee meets on an ad-hoc basis, as appropriate, to ensure its involvement in the Company's dynamic business activities. Representatives from RAC, GRMO and the various Enron Business Units may be periodically called upon to make reports to the Risk Management Committee regarding specific risk management issues.

The Risk Management Committee fulfills its risk management responsibilities through direct oversight and prudent delegation of its responsibilities to both corporate and business unit personnel. Authority for the approval of Credit Limits is delegated to RAC.

6.5 Enron Business Units

Each Enron Business Unit is responsible for compliance with the Policy as described herein.

6.5.1 Office of the Chairman of an Enron Business Unit

Either the Chief Executive Officer or the Chief Operating Officer of each Enron Business Unit is responsible for the implementation of and compliance with this Policy within their respective business unit. Each Enron Business Unit's Office of the Chairman's risk management responsibilities include, among others things:

- i. The establishment of a framework within the business unit for the implementation of the risk management policies and procedures established by the Board and any additional requirements established by the CEO, Risk Management Committee, the Chief Risk Officer or RAC
- ii. The management of business unit positions to ensure that all required Limits are observed and any required Limit Violation and Loss Notifications, together with any required documentation, are provided to the appropriate parties as required under this Policy
- iii. The designation of key commercial managers for each asset, liability, and active contract to ensure the Company's Risk Capital is optimized in compliance with this Policy
- iv. The management and review of the activities and responsibilities of traders and commercial personnel, including verification that this Policy is reviewed and implemented by their business unit
- v. The provision of guidance to traders regarding position management upon notification of a Limit Violation or a Loss Notification
- vi. The review of their respective Enron Business Unit to ensure compliance with this Policy

6.5.2 Authorized Traders and Commercial Personnel

Only those employees specifically approved by the Office of the Chairman of an Enron Business Unit or its designee, as reported to RAC, will be authorized to enter into Transactions on behalf of the Company. RAC

shall maintain a record of these Authorized Traders. The Office of the Chairman of each Enron Business Unit or its designee is responsible for immediately reporting any change in its Authorized Traders to RAC, even if such changes are due to the termination or reassignment of an existing trader or the hiring of a new trader. Head Traders are those traders who are responsible for a specific Commodity Group or ~~Concentration Limit~~ under this Policy.

Traders and commercial personnel who have direct contact with potential counterparties represent the Company's first line of defense against transactions with unauthorized market risk exposure and unacceptable credit exposure. Commercial personnel include originators, marketers and business development personnel.

Authorized Traders' and/or commercial personnel's risk management responsibilities include, among other things:

- i. The review and compliance with this Policy, including the management of their activities in a manner that is consistent with the Company's overall business strategies and the risk appetite applicable to positions they manage
- ii. The identification of material risks inherent in their activities and the timely communication of information regarding market developments, trends and counterparty credit events to RAC
- iii. The submission of required counterparty information to RAC for credit analysis and review purposes
- iv. The verification that all required approvals are obtained from RAC and Legal, as well as any approvals required under the Transaction Approval Process, if applicable, prior to entering into a transaction
- v. The proactive reduction of risk exposures as limits are being approached or in anticipation of planned transactions that would increase risk exposures beyond established risk tolerances
- vi. The determination, together with the Company's Accounting Department, of the appropriate accounting impact of trading, risk management and hedging strategies involving the use of instruments as defined in SFAS 133
- vii. The development of procedures, together with the Company's Accounting Department, for testing the ongoing effectiveness of derivative hedges to ensure compliance with SFAS 133 requirements
- viii. The accurate recording and valuation of positions in the Company's risk books and financial and accounting systems
- ix. The reporting, as required under this Policy, of any Limit Violation or Loss Notification or other exceptions to the limit structure

6.6 Global Risk Management Operations ("GRMO")

Global Risk Management Operations ("GRMO") plays a key role in the implementation of each Enron Business Unit's risk management processes. Accordingly, GRMO has a dual reporting role at the executive level to both the Chief Accounting Officer of Enron Corp. and to commercial management. For certain businesses or activities, a middle office function other than GRMO may perform a similar role and have equivalent responsibilities to those described for GRMO in this Section. For purposes of this Policy, any discussion of GRMO's roles and responsibilities is intended to apply to the middle office functions of those businesses or activities that do not employ GRMO.

GRMO's risk management responsibilities include, among others things:

- i. The coordination of logistics and settlements
- ii. The execution and confirmation of contracts with counterparties
- iii. The capture and reporting of the Company's risk positions as required by RAC with sufficient detail to allow accurate analysis and reporting of market and credit risks

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- iv. The preparation of various valuation and risk analyses, with the distribution of results and conclusions to the appropriate personnel in RAC
- v. The participation in new product development and approval to ensure that operational risks are addressed and infrastructure needs are met prior to the commencement of any new business activity
- vi. The preparation and distribution of market risk limit exception reports on a timely basis, including explanations for exceptions provided by the appropriate traders
- vii. The support of investigations into any trading anomalies
- viii. The support of operational risk assessments of trading offices

6.7 Accounting

The Company's Accounting department performs a back office function responsible for the management of certain financial and accounting functions and for certain statutory and compliance reporting. The Back Office's risk management responsibilities include, among others things:

- i. The reconciliation of the monthly general ledger to the risk reports such as the Enron Business Units Daily Position Report
- ii. The analysis of budget to actual
- iii. The preparation of weekly and monthly management reports
- iv. The preparation of cash flow and income forecasts
- v. The evaluation of the adequacy of credit reserves based on simulations by RAC and other considerations

6.8 Legal

The Company's Legal function is responsible for ensuring that the documentation supporting the transactions executed by Authorized Traders and other employees considers and protects the Company from risk exposure. All documents that contain a commitment binding the Company must be reviewed and initialed by a member of the Company's Legal department prior to execution. The Legal function's risk management responsibilities include, among others things:

- i. The management and resolution of all legal issues related to the business of the Company
- ii. The drafting, review and approval of all master agreements, confirmations, guarantees and other documents that Enron Business Units must sign to execute transactions
- iii. The monitoring of the Company and each Enron Business Unit to ensure each conforms to all laws, regulations and Company policy
- iv. The administration of the Company's Code of Ethics that is incorporated by reference into this Policy

6.9 Risk Assessment and Control ("RAC")

RAC reports directly to the Chief Risk Officer, and includes the market risk management function, the credit Risk management function, the operational risk assessment function, and the various strategic risk management initiatives of the Company's enterprise-wide risk management policy. RAC also includes management of the Transaction Approval Process designed to provide special review of market and credit risks as well as operational exposures for specified transactions in accordance with this Policy, and management of the Guarantee Approval Process. The credit risk management function has dual responsibilities to (a) support the commercial personnel on daily basis in relation to credit risk issues, and (b)

to act independently in identifying, reporting and monitoring credit risk exposures and ensuring that senior management is kept informed of these exposures.

References to RAC shall be interpreted as the appropriate individual and/or group within RAC depending on the issue being addressed. The Chief Risk Officer's risk management responsibilities delegated to RAC include, among others things:

- i. The oversight of the overall risks and risk management practices to ensure that they are consistent with Company policy and strategy; engaging management in discussions regarding events or developments in macroeconomic, legal, regulatory and technological structural shifts that could expose the Company to potential losses
- ii. The oversight of the development, approval and administration of policies, methodologies, and practices for measuring, monitoring and managing the risk exposures of the Company; the review of proposed modifications to existing risk measurement methodologies, and the development of new risk measurement tools for market risk, credit risk, liquidity risk and operational risk, in coordination with the Company's research function
- iii. The central management of the Company's market and credit exposure governed by this Policy, the aggregation of risks across the Company and the review of the risk profile of the overall portfolio
- iv. The establishment of credit reserves against potential credit losses, as appropriate
- v. The review and recommendation for approval of market risk limits to the Chief Risk Officer, following analysis of market risks
- vi. The establishment and approval of counterparty credit limits
- vii. The recommendation, implementation and approval of credit risk mitigation and hedging strategies for positions that fall outside the direct responsibility of an Enron Business Unit
- viii. The review and approval of Benchmark Position methodology, the review of curve validation results, stress test results, and any other significant analyses prepared by GRMO; the evaluation of the effectiveness of the VaR process via Back Testing, and the refinement of VaR model requirements
- ix. The oversight of a model vetting process to ensure market and credit risks are accurately quantified
- x. The provision of operational risk assessment guidelines, addressing whether Enron Business Unit employees are appropriately trained to understand and comply with the Company's established risk management processes
- xi. The assessment of whether the Company's infrastructure supports the credit, market, operational and liquidity risk management needs of the Company to support, measure, monitor and manage exposures
- xii. The assessment of returns achieved by Enron Business Units in the various Portfolios relative to expectations and to the level of risk incurred
- xiii. The reporting to the Finance Committee and Audit Committee at regularly scheduled Board meetings, as well as providing special analyses and reports to the CEO and to the Chairman of the Finance Committee
- xiv. The performance of due diligence for the Merchant Portfolio to determine if a potential investment counterparty has appropriate accounting systems, controls and infrastructure for appropriated stewardship of Enron's capital
- xv. The monitoring of deal milestones, compliance requirements and performance for Merchant Portfolio investments to determine if the investment is performing according to the approved Deal Approval Sheet ("DASH") and appropriate legal documentation

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- xvi. The assessment of special valuation issues or specifying limitations on the use of certain derivatives; the performance or review of special analyses on the Company's overall risks, using specialized stress tests and scenario tests
- xvii. The review and approval of counterparties and trading positions transactions prior to execution in order to identify, measure and price the associated credit risk, and for significant changes in credit quality and risk issues, such as exceptional gains and losses
- xviii. The review of requests for new Commodity Groups and new products within existing Commodity Groups, the identification of issues and the recommendation of limit structures
- xix. The performance of due diligence on issuers of counterparties' letters of credit and guarantees to ensure they meet minimum credit standards
- xx. The coordination of review and execution of all counterparty documents with the Company's Legal function, including negotiating directly with counterparties to ensure credit risk is mitigated through contractual arrangements
- xxi. The maintenance of current and complete credit files, and actively monitoring counterparty credit events and industry/market trends for potentially adverse effects on the counterparty's credit profile, using internal and external information sources

6.10 Treasury/Global Finance

Treasury/Global Finance supports this Policy by managing funding/liquidity risk as addressed in Sections 3.4 and 4.4 of this Policy. These responsibilities include obtaining or coordinating the preparation of cash flow projections, considering both business-as-usual scenarios and planning for liquidity constraints.

The Treasurer shall report at each meeting of the Finance Committee the aggregate amount of the Company's (a) payment obligations and (b) estimated contingent liability of performance obligations not involving the payment of money under all the Company's guarantees, letters of credit, letters of indemnity, and other support arrangements effective at the time of the meeting.

6.11 Internal Audit

6.11.1 Enron Assurance Services

Enron Assurance Services operates under a written charter adopted by the Audit Committee and maintains its independent and objective stature by its functional reporting responsibilities to the Audit Committee. The objective of Enron Assurance Services is to improve the Company's operations by bringing an independent, systematic and disciplined approach to evaluate and enhance the effectiveness of risk management, control and governance processes.

Working in concert with the Company's independent auditors and other various control and monitoring functions across the Company, (i.e., RAC, information technology compliance, security, legal, ethics, environmental, and quality management), Enron Assurance Services directs a broad, comprehensive program of assurance and consulting activities within the Company. This includes establishing scopes, selecting subjects, setting frequencies, allocating resources and utilizing a variety of techniques required to accomplish internal control/risk management objectives.

6.11.2 Information Technology Compliance

The objective of Information Technology Compliance is to monitor and improve information technology risks and controls across the Company. Information Technology compliance serves as the primary auditor of the Company's information technology systems and works in concert with the Company's independent auditors. Information Technology Compliance serves as a complimentary organization to Enron Assurance Services with a specific focus on information technology.

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7 Miscellaneous

7.1 Brokerage Accounts Administration

Certain Enron Business Units shall be authorized periodically to open trading accounts with clearing brokers to facilitate the conduct of their business. All requests to open or renew a trading account with a broker shall be reviewed and approved by the Chief Risk Officer or his designee(s). The Company shall also notify brokers of the names of Company personnel authorized to trade futures, options or other contracts. The Company shall update these authorizations periodically.

Brokerage account agreements must be reviewed by the Legal department of the Company prior to execution, and at least one officer of an Enron Business Unit and one officer of RAC are required to open an account as required by corporate resolution. Brokers must be in compliance with all rules and regulations of the Securities and Exchange Commission requirements. The Company shall maintain a comprehensive file of all open brokerage accounts that lists the purpose for which each account was opened and the names of Authorized Traders. Changes in Authorized Trader lists shall be communicated to the appropriate brokers as necessary. All brokerage accounts shall be reviewed periodically to determine whether they are still active, and shall be closed if no longer needed.

7.2 Employee Trading

No employee of the Company may engage in the trading of any position for the benefit of any party other than the Company, whether for their own account or for the account of any third party, where such position relates to any security, commodity, contract or derivative thereof within any Commodity Group listed in Appendix A. The only exception to this restriction is that employees who are not involved with the Commodity Groups listed under the heading "Financials" in Appendix A, may trade for their own account those items with which they are not involved.

Periodically, certain employees, their family members and anybody that is financially dependent on those employees, may also be restricted from trading specific securities and derivatives thereof. In addition to these trading restrictions, if any employee should at any time possess non-public information about any public company, that employee, the employee's family members and anybody that is financially dependent on that employee, shall be restricted from trading in that issue, and that employee may not disclose the non-public material information to anyone that does not have a business need to know.

Employees must seek dispensation from the Risk Management Committee for any exception to these requirements. In no case should employees' personal trading conflict with the Company's trading initiatives. Employee with questions regarding employee trading and investing should contact the Company's Compliance department.

7.3 Employee Review and Compliance with Policy

As determined by the Chief Risk Officer or his designee(s), Company employees participating in any activity or transaction within the coverage of this Policy shall sign a statement approved by the Chief Risk Officer (see Appendix H for sample employee compliance statement) that such employee (a) has read this Policy, (b) understands this Policy, and (c) has complied and will comply with this Policy, with specific acknowledgement of employee trading restrictions.

The Company's employees should comply with this Policy. Willful or deliberate non-compliance or falsification of risk metrics or profits and losses referred to by this Policy will be regarded as gross misconduct.

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7.4 Transition Plan for Policy Compliance

The Board delegates to the Risk Management Committee the authority to approve exceptions to Policy requirements during a transition period. RAC shall work with the Enron Business Units to develop a transition plan to implement the Policy guidance and requirements described herein.

7.5 Supersedes Prior Policies

This Policy supersedes and replaces all previous policies of Enron Corp. approved by the Board concerning risk management or trading or transaction approval. This Risk Management Policy was approved by the Board on August 14, 2001, and shall be amended by the Board as necessary, the dates of such amendments to be reflected on the first page hereof.

Enron Business Units may execute their own risk management policies and procedures that are subordinate or in addition to the requirements in this Policy.

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8 Glossary

Affiliate shall mean any entity in which the Enron Corp. has an ownership interest less than 80%.

Audit Committee shall mean the Audit and Compliance Committee of the Board of Directors of Enron Corp.

Authorized Traders shall mean those traders approved by the Office of the Chairman of an Enron Business Unit or its designee to enter into Transactions on behalf of the Company.

Back Testing refers to the process of systematically comparing outputs from a model to actual observed outcomes the model is designed to forecast. In the context of VaR, this means that actual daily trading profits and losses should be compared to the calculated VaR. Since the standard approved VaR methodology assumes a 95% confidence interval, it follows that, on average, a loss would occur that exceeds VaR, once in every twenty trading days. The occurrence of such observations at a greater or lower frequency than that implied by the 95% confidence interval may indicate that the results of the model understate or overstate risk.

Benchmark Position shall mean the position within a Commodity Group into which all other positions within the same Commodity Group can be converted using price volatility and correlation-based conversion factors. Such conversion factors shall be established and authorized by RAC, and any significant changes in the factors or methodology shall be reviewed and approved by RAC.

Board shall mean the Board of Directors of Enron Corp.

Borrowing Capacity shall mean, as used in calculating the Liquidity Ratio, the sum of the Company's: (a) commercial paper, (b) uncommitted bank lines and loan sales lines, (c) letter of credit facilities, (d) net accounts receivable and accounts payable, (e) net price risk management assets, (f) inventory, (eg) shelf registrations for public debt issues, and (fh) shelf registrations for public equity issues, as determined by the Company's Treasury/Global Finance department.

Capital Portfolio is designed to manage exposures in the Company's capital structure as described in Section 2.

CEO shall mean the Chief Executive Officer of Enron Corp.

Chief Risk Officer shall mean the Chief Risk Officer of Enron Corp.

Commodity Group shall mean a collection of positions having sufficient relationship and correlation as approved by Risk Management Committee that allow for aggregation into a Benchmark Position.

Commodity Group Limits shall mean those market risk limits assigned as described in Section 4.1.1.4 of this Policy.

Company shall mean Enron Corp. and its subsidiaries.

Concentration Limits shall mean the maximum risk appetite for specific markets or activities approved by the Board and aggregated into specified Commodity Groups of categories of positions, as described in Section 4.1.1.2 of this Policy. These Concentration Limits are listed in Appendix A.

Conforming shall mean a transaction that is routine, non-budgeted and within the general business lines of the Company; in an industry where the Company has established expertise; and in a country where the Company has established a local presence and is currently conducting business. To be designated Conforming, the RAC recommendation must be "Proceed with Transaction".

Credit Aggregation System ("CAS") provides Credit Risk Management with the capability to record limits and monitor end of day credit exposures. The credit risk aggregation system aggregates counterparty exposure globally and displays active transactions from business unit source and back office accounting systems.

Credit Limits shall mean limits governed by the credit risk management function of RAC as described in Section 4.2.1.2 and Appendix C.

Credit Risk Procedures shall mean the credit risk management function personnels' authority as described in Appendix C.

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Cumulative 5-day Loss shall mean when the Cumulative 5-day Profit and Loss results in a loss in excess of 225% of the corresponding VaR limit. Upon a Cumulative 5-day Loss, Loss Notifications are triggered in accordance with Section 4.1.2.3. Following the occurrence of a Daily Loss or a Cumulative 5-Day Loss, the Cumulative 5-day Loss calculation is reset.

Cumulative 5-Day Profit and Loss shall mean the net sum total of Daily Profit and Loss for each Commodity Group for five consecutive business days, without giving effect to the impact of change in valuation adjustments. Upon a specified Cumulative 5-Day Loss, Loss Notifications are triggered in accordance with Section 4.1.2.3 of this Policy.

Daily Profit and Loss shall mean a single day of the profit or loss without giving effect to the impact of change in valuation adjustments. Upon a specified Daily Loss, Loss Notifications are triggered in accordance with Section 4.1.2.3 of this Policy. The Daily Profit and Loss will be calculated using the mark-to-market method on a net present value basis, exclusive of valuation adjustments. This measurement shall be calculated from (a) the profit or loss reported on the Company's daily position reports, and (b) the valuation adjustment activity reported in a separate schedule. No other adjustments to the calculation shall be considered in determining the Daily Profit or Loss, regardless of whether or not the profit and loss results include catch-up or other type of unusual entries.

Deal Approval Sheet (DASH) is the document used in the official approval of the deal. It encompasses a summary of RAC's final analysis of the risks and mitigants in the deal as well as the expected value and range of values. Other documents employed in this process include Guarantee Approval Sheet (GASH), Modeling Assumption Sheet (MASH) and Revaluation Approval Sheet (RASH).

Delta shall mean the change in value due to a unit change in the price of the underlying.

Discretionary VaR as referred to in Appendix A shall mean an amount of VaR included in the Trading Portfolio Limit and reflected in the Trading Portfolio's Concentration Limits that the CEO and Risk Management Committee can allocate to Enron Business Units and Commodity Groups at their discretion.

Divestiture shall mean the disposal of an asset (including securities).

Earnings-at-Risk is a risk metric to be applied as described in Section 3.1.5 of this Policy.

Enron Business Unit(s) shall mean Enron Corp. and any entity controlled, directly or indirectly, by Enron Corp., (including internal groups created for the purposes of trading, or aligned according to the commodities set out in the Appendices), or any entity directly or indirectly under common control of Enron Corp. For this purpose, the criteria for establishing "control" of any entity include but are not limited to, ownership of more than fifty percent (50%) of the voting power of such entity.

Enron Business Unit Limit shall mean the overall VaR limit for each Enron Business Unit as determined by the Risk Management Committee and the CEO.

Enron Business Units Daily Position Report shall mean the report comparing Portfolio Limits, Enron Business Unit Limits, and Commodity Group Limits for each respective Enron Business Unit to corresponding actual results, as described in Section 4.1.2.2.1.

Enron Concentration Limit Daily Position Report shall mean the report that monitors each Concentration Limit and aggregates the Company's consolidated results of the Trading Portfolio on a Commodity Group basis. The Capital Portfolio's Concentration Limit shall also be included in this report as described in Section 4.1.2.2.2.

Enron Rating (E-Rating) shall mean the Enron Credit Rating as referenced in Appendix B of this Policy.

E-Rating shall mean a RAC assigned counterparty credit risk rating on a scale of 1 to 12 as described in Appendix B.

Eta shall mean the change in the price of an option as correlations change.

Expected Tail Loss ("ETL") shall represent the expected daily loss beyond Extreme VaR.

Expected Tail Loss Advisory Limit ("ETL Limit") shall mean the Board approved advisory limit that applies to the Company's Trading Portfolio used to trigger certain notifications.

ETL Notification shall mean the occurrence of an ETL measurement in excess of the ETL limit requiring notifications as described in Section 4.1.2.3.1.

Extreme Value-at-Risk ("EVaR") shall mean the potential exposure measurement based on historical profits and losses and current positions given a specified confidence level and a fat-tailed distribution (as opposed to a normal distribution used for the Company's VaR calculations).

Extreme Value Theory ("EVT") examines the characteristics of extreme events, whose impact on the portfolio cannot be determined using the standard VaR metric, and is described in Section 3.1.2 of this Policy.

Finance Committee shall mean the Finance Committee of the Board of Directors of Enron Corp.

Financial Guarantee shall mean a guarantee issued by the Company that (a) guarantees obligations (i) for the repayment of money borrowed which are or should be shown on a balance sheet as debt in accordance with Generally Accepted Accounting Principles ("GAAP"), or (ii) as lessee under leases which, in accordance with GAAP, are capital leases, and (b) constitutes "Debt" under the definition of "Debt" in the principal credit agreement of the Company; provided, that a Financial Guarantee shall not include any letter of indemnity or other support arrangement (including, without limitation, a sponsor or parent support or performance agreement). For purposes of this policy, any letter of credit issued for the account of the Company and obligations related thereto, including, but not limited to, obligations arising under any master letter of credit agreement for any such letter of credit, shall be treated as debt.

Fundamental Operating Standards shall mean the standards as referenced in Appendix F of this policy.

Future Available Cash shall mean, as used in calculating the Liquidity Ratio, the Company's current cash-flow forecast as determined by the Treasury/Global Finance department, considering operating and investing activities.

Gamma shall mean the change in Delta of an option given a change in the price of the underlying.

Global Risk Management Operations shall mean the middle office function of the Enron Business Units, whose responsibilities are described in Section 6.6.

GRMO shall mean the Global Risk Management Operations of Enron Corp.

Guarantee Approval Process provides for a process of review and approval of guarantees (see Appendix E).

Guidance Credit Limits shall mean the credit limits used by RAC to accurately monitor and manage the overall credit risk for a counterparty.

Head Trader is the person on the trading desk designated to allocate capital to traders, approve trading strategies and monitor trading activity, positions and profit and loss.

Letter of Credit shall mean any letter of credit issued for the account of the Company and obligations related thereto, including but not limited to obligations arising under any master letter of credit agreement for any such letter of credit.

Limit Violation shall mean an occurrence where a Net Open Position, Maturity/Gap Position, or VaR measurement exceeds the corresponding limit, consequently triggering certain reporting as described in Section 4.1.2.3 of this Policy.

Liquidity Exposure Ratio ("Liquidity Ratio") shall be calculated as the sum of the Company's Future Available Cash and Borrowing Capacity divided by the Company's Potential Future Cash Requirements where:

Liquidity Ratio Advisory Limit shall mean the specified level of the Liquidity Ratio that will require the Chief Risk Officer to notify the CEO in accordance with Section 4.4.2.

Liquidity Ratio shall be calculated daily over a specified time period by dividing (a) the sum of the Company's (i) Future Available Cash and (ii) Borrowing Capacity, by (b) the Company's Potential Future Cash Requirements.

Loss Notification shall mean an occurrence where a Daily Loss or Cumulative 5-Day Loss measurement exceeds a specified percentage of the corresponding VaR limit, consequently triggering certain reporting as described in Section 4.1.2.3 of this Policy.

Material Adverse Change ("MAC") shall mean a change in the business conditions, financial conditions, or operations of a party that prohibits the party from performing its obligations under a contract.

Maturity/Gap Position shall mean the largest rolling net open position within a specified reference period. It is a measure designed to capture time spreads in the portfolio.

Merchant Portfolio is designed to manage exposure related to merchant investments as described in Section 2.

Monte Carlo Simulation is an analytical technique that uses a computer to generate random outcomes assuming a distribution.

Net Open Position shall mean the discounted aggregate of the open positions in a Commodity Group on a Benchmark Position equivalent basis.

- Net Open Position for interest rate exposure is measured and limited by sensitivity analysis measured through a partial duration hedge metric. Selected points are identified on the yield curve, and position exposures are allocated to time buckets for each of these points along the yield curve. Sensitivity is calculated by increasing the yield associated with one time bucket by one basis point while holding all other points along the curve constant. This process is applied to each time bucket separately across the entire term structure.
- Net Open Position for foreign currency positions in the Trading Portfolio is translated into an equivalent U.S. Dollar position using the closing spot rate. The equivalent U.S. Dollar position is summed to provide the net foreign currency open position.

Non-Conforming shall mean a transaction that is outside the general business lines of the Company or in an industry where the Company has little or no expertise; made in a country where the Company has no local expertise or where the overall exposure to the country is excessive; or made to an entity or within an industry that would result in excessive exposure to that entity or industry. Non-conforming transactions include all with RAC recommendation of "Returns Below Capital Price" or "Do Not Proceed".

Other Assets and Contracts Portfolio is designed to manage exposures embedded in the Company's assets (investments, contractual arrangements, etc.) that are either accounted for on an accrual basis or are not otherwise captured in the Trading Portfolio, the Merchant Portfolio, the Capital Portfolio, or the Regulated Portfolio.

Performance Guarantee shall mean any guarantee not constituting a Financial Guarantee, any letter of indemnity or any other support arrangement (including, without limitation, any sponsor or parent support or performance agreement). For example, a guarantee of a swap agreement, swap confirmation, or master swap agreement is a Performance Guarantee.

Policy shall mean the Enron Corp. Risk Management Policy.

Portfolio shall mean the specific aggregation of positions as defined in Section 2 of this Policy.

Portfolio Limits shall mean the limits assigned to aggregate positions for the Portfolios identified in Section 2, as described in Section 4.1.1.1 of this Policy.

Position Limit Violation shall mean the occurrence of a Net Open Position or Maturity/Gap Position measurement that exceeds the corresponding limit.

Potential Future Cash Requirements shall mean the denominator of the Liquidity Ratio, representing the simulation of margin exposure and collateral requirements for the Trading Portfolio.

Prepaid or Embedded Debt Financing shall mean the maximum exposure to the Company as a result of a prepaid physical or derivative trading/risk management transaction, a tilted swap or other transaction where debt financing of a counterparty is embedded in a trading/risk management transaction.

President shall mean the President of Enron Corp.

Principal Credit Agreement of Enron Corp. shall be the U.S. \$1,750,000,000 364-Day Revolving Credit Agreement dated as of May 14, 2001, as such Revolving Credit Agreement now exists or may be amended from time to time, among Enron Corp., as Borrower, the Banks named therein, and The Chase Manhattan Bank, N.A. and Citibank N.A., as Co-Administrative Agents.

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RAC shall mean the Risk Assessment & Control department of the Company.

RAC Recommendation shall mean RAC's recommendation on a Transaction, which will be one of the following: (a) proceed, (b) returns below capital price, or (c) do not proceed, or any other categories determined by RAC.

Regulated Portfolio shall mean the Transportation and Distribution Regulated Portfolio.

Return on Capital-at-Risk ("RoCAR") shall mean the aggregate of expected returns against aggregate Risk Capital.

Return on Value-at-Risk ("RoVAR") shall mean the aggregate profit or loss, divided by the average daily VaR for the same period.

Rho shall mean the change in the price of an option due to changes in interest rates.

Risk-Adjusted Capital shall mean the aggregation of exposure in a transaction that results from: (a) capital expenditure; (b) commodity position; (c) credit; or (d) guarantees, with such exposures translated into an equivalent amount of capital as determined by RAC.

Risk Assessment and Control ("RAC") shall mean the Company's Risk Assessment and Control department.

Risk Capital represents the amount of capital at risk due to market factors, credit quality and operational events as more clearly described in Section 1.2 of this Policy.

Risk Management Committee ("RMC") shall mean the Risk Management Committee of Enron Corp. Its membership includes the Chief Risk Officer and such other individuals as determined by the CEO.

Subsidiary shall mean: (a) any subsidiary directly or indirectly 80%-owned to 100%-owned by Enron Corp., (b) any direct or indirect subsidiary of Enron Corp. if the other owners of such subsidiary hold stock in such subsidiary for the purpose of meeting legal requirements of the jurisdiction in which such subsidiary is incorporated, and (c) Enron Equity Corp., Enron Capital & Trade Resources International Corp. or any of its direct or indirect subsidiaries or any other direct or indirect subsidiary of Enron Equity Corp. or Enron Capital & Trade Resources International Corp. not 100%-owned by Enron Equity Corp. or Enron Capital & Trade Resources International Corp. if the other owners of such subsidiary collectively hold a minority ownership interest in such subsidiary that entitles them primarily only to a return of capital contributions or to share in the profits, losses, distributions, or dividends of such subsidiary and does not entitle them to participate in the operation, management or control of its business. For purposes of this Policy, the right to vote by itself shall not be deemed to entitle an owner to such participation.

Tenor Limits shall mean limits governed by the credit risk management function of RAC as described in Section 4.2.1.3 and Appendix C.

Theta shall mean the change in the value of an option for a one-day decay holding all other parameters constant.

Trade Guarantee shall mean guarantees issued in the normal course of business by Enron Corp. to support the obligations of Enron Corp. Subsidiaries or Affiliates with respect the purchase and/or sale of physical commodities or financial transactions related to trade activities.

Trading Portfolio is designed to manage exposures to commodity transactions as described in Section 2.

Transaction shall mean shall mean risk-adjusted capital, divestiture or embedded debt financing with the exposure reflected net to Enron, including funding vehicle exposure.

Transaction Approval Process provides for (a) a process of review and approval of Capital Expenditures, and (b) a process for prior transactions involving Capital Expenditures to be reviewed for performance and results (see Appendix D).

Transportation and Distribution Regulated Portfolio ("Regulated" Portfolio) shall mean the Portfolio described in Section 2 that manages the regulated activities in the Company's natural gas pipelines and domestic utility subsidiaries.

Unaffiliated Third Party shall mean any entity in which Enron Corp. has no ownership interest.

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Value-at-Risk ("VaR") shall mean the potential exposure related to a Commodity Group or Position representing the potential change in value resulting from changes including: market prices, interest rates, currency rates, counterparty credit condition, liquidity, funding and settlement risk, among others. VaR shall be calculated using the RAC approved VaR methodology at the 95% confidence interval using a 1-day time horizon. Any recalibration or modification of the VaR methodology or parameters that take into account observed or anticipated changes in market factors or developments in VaR technologies must be approved by RAC.

VaR Limit Violation shall mean the occurrence of a VaR measurement that exceeds the corresponding limit.

Vega shall mean the change in the price of an option due to a change in volatility.

Volumetric Risk shall mean the risk of loss due to a change in expected volumes.

9 Appendices

Appendix A - Market Risk Limits

Appendix B - Description of Enron Credit Risk Ratings (E-Ratings)

Appendix C - Credit Risk Procedures

Appendix D - Transaction Approval Process

Appendix E - Guarantee Approval Process

Appendix F - Fundamental Operating Standards *

Appendix G - Operational Risk Considerations *

Appendix H - Sample Documentation of Employee Acknowledgement of Policy

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Changes are denoted in red

Appendix A - Market Risk Limits

<u>Trading Portfolio</u>	<u>VaR Limits (\$000)</u>	<u>Expected Tail Loss Advisory (\$000)</u>
Aggregate Portfolio Limit (1)	150,000	520,000
AMERICAS NATURAL GAS	100,000	
* North American Natural Gas		
* Southern Cone Natural Gas		
* LNG		
AMERICAS ELECTRICITY	100,000	
* North American Electricity		
* Southern Cone Electricity		
* Global Risk Markets		
EUROPEAN NATURAL GAS & ELECTRICITY	45,000	
* European Natural Gas		
* UK Electricity		
* Continental Electricity		
* Nordic Electricity		
PRODUCTS	20,000	
* Global Products		
* Coal		
FINANCIALS	15,000	
* Credit Trading		
* Financial Instruments (Interest Rates, Foreign Currency)		
* Equity Trading		
* Convertible Arbitrage		
EMERGING BUSINESSES	20,000	
* Metals & Minerals		
* Australian Electricity		
* Japanese Electricity		
* Weather Derivatives		
* Freight Markets		
* Emissions		
* Pulp & Paper		
* Lumber		
* Steel		
* Meats Trading		
* Grain Trading		
* Soft Commodities		
* Bandwidth		
* Data Storage		
* Advertising		
* DRAM		
* Voice Minutes		
* Financial Real Estate		
CAPITAL PORTFOLIO	N/A	
Enron Stock	10,000	
REGULATED PORTFOLIO	10,000	

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LEGEND:

Portfolio Limit (Approved by Board)
Concentration Limits (Approved by Board)
Commodity Groups *

(1) \$50 MM of Discretionary Var is included in the \$150 MM Trading Portfolio Limit and Trading Portfolio Concentration Limits above; Discretionary VaR to be allocated to Enron Business Units and Commodity Groups by the CEO/Chief Risk Officer;
* Commodity Groups listed for informational purposes; CEO and may change at any time.

Appendix B - Description of Enron Credit Risk Ratings (E-Ratings)

ENRON RATING	S & P RATING	MOODY'S RATING	INVESTMENT GRADE DESCRIPTION
1	AAA/AA+	Aaa/Aa+	<ul style="list-style-type: none"> • Exceptional degree of stability and substance • Significant balance sheet and cash flow demonstrated throughout business or industry cycle with positive trends and long-term outlook • Significant size and strength in industry • Very high quality assets • Capacity to pay interest and principal very strong • Low financial leverage with substantial debt capacity • Unquestioned access to global markets
2	AA/AA-/A+	Aa2/Aa3/A1	<ul style="list-style-type: none"> • High degree of stability and diversity • Balance sheet and operations slightly more susceptible to adversity with the business or industry cycle • High quality assets • History of strong earnings and cash flow with excess interest coverage levels • Modest financial leverage with ample debt capacity • Ready access to capital markets under normal market conditions
3	A/A-	A2/A3	<ul style="list-style-type: none"> • Strong market and financial position with a history of successful performance, but more susceptible to economic changes • Assets are good quality with little reliance on intangibles. CAPEX is reasonable • Strong cash flow and interest coverage levels with trends generally consistent • Financial leverage is satisfactory with sufficient debt capacity • Access to capital markets under normal market conditions
4	BBB+/BBB	Baa1/Baa2	<ul style="list-style-type: none"> • Satisfactory earnings, cash flow and interest coverage, although trends are occasionally inconsistent • More concentration of business risk, by product or market, may be present. Susceptible to cyclical changes • Assets are of average quality, which may require significant CAPEX; intangibles may be material in nature • Highly experienced/qualified management • Access to capital markets will generally be available under normal market conditions
5	BBB-	Baa3	<ul style="list-style-type: none"> • Higher degrees of susceptibility to cyclical trends due to industry position, less diversification, etc. • Assets and cash flows are reasonably sound with adequate coverage levels • Financial leverage is slightly above average and assets may require significant CAPEX • Access to capital markets may be available under normal conditions
6	BB+	Ba1	<ul style="list-style-type: none"> • Higher degree of volatility of earnings, cash flow, interest and overall performance • More long-term uncertainty, but with less near-term vulnerability than other speculative grades • Financial leverage is high with some debt capacity remaining • Adequate coverage • May have "above average" risk elements relative to industry • Less access to public markets, reliant on bank financing

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Appendix B - Description of Enron Credit Risk Ratings (E-Ratings)

ENRON RATING	S & P RATING	MOODY'S RATING	INVESTMENT GRADE DESCRIPTION
7	BB	Ba2	<ul style="list-style-type: none"> Earnings, cash flow and interest coverage may be volatile with trends subject to erratic swings Outlook contains factors which may lead to unstable conditions Assets are below average quality but are expected to maintain value CAPEX requirements could be significant due to asset quality/possible material reliance on intangibles Financial leverage is high with some debt capacity remaining Adequate financial controls Experienced management, but depth of management is less certain Access to financing primarily available from banks or other private sources; less access to public markets
8	BB-	Ba3	<ul style="list-style-type: none"> Pronounced risk elements with uncertainty of future performance Earnings and cash flows are volatile Assets are below average quality; CAPEX spending requirements could be significant Marginal interest coverage levels Less access to public markets
9	B+/B	B1/B2	<ul style="list-style-type: none"> Earnings and cash flow will generally be strained Trends are unfavorable and the outlook is difficult Adverse economic market or other event may affect the company's financial performance in the future Assets are significant value to provide a "second way out"; significant intangibles exist Financially over-leveraged, with minimal sources of financing available Management turnover or lack of experience or stability may result in deterioration of financial performance
10	B-	B3	<ul style="list-style-type: none"> Adverse business, financial or economic conditions will likely impair capacity to repay interest and principal Assets are insufficient value to provide a "second way out"; warrants additional levels of supervision Financially over leveraged Weak interest coverage levels; management turnover or lack of experience or stability may result in deterioration of financial performance
11	CCC	Caaa/Ca	<ul style="list-style-type: none"> Poor quality in most respects Interest likely to be in arrears with principal payments in danger This rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments continue
12	D		<ul style="list-style-type: none"> Payment default, interest and/or principal payments have not been made on due date, even if applicable grace period has not expired This category is also used when the Company has filed a bankruptcy petition and debt service payments are jeopardized Repayment in full is highly questionable

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Appendix C - Credit Risk Procedures

If the assigned E-Rating is consistent with the public credit rating, any level of credit risk management personnel has the authority to approve the internal E-Rating. A manager or above in credit risk management in RAC must approve E-Ratings for counterparties whose public ratings are not consistent with the assigned E-Rating and for non-publicly rated counterparties. Credit risk management RAC personnel approval authority is described in tables below.

Credit Limit Authority (\$Millions)

Credit Risk Management Personnel Authority	E 1-2	E 3-5	E 6-8	E 9-12
Analyst Level I	\$10	\$5	\$2	\$0.25
Analyst Level II	\$20	\$15	\$10	\$2
Manager	\$50	\$35	\$20	\$5
Director	\$100	\$100	\$50	\$25
V.P.	\$200	\$200	\$100	\$50
Chief Risk Officer or Office of the Chairman of Enron Corp.	Over \$200	Over \$200	Over \$100	Over \$50

Tenor Limits

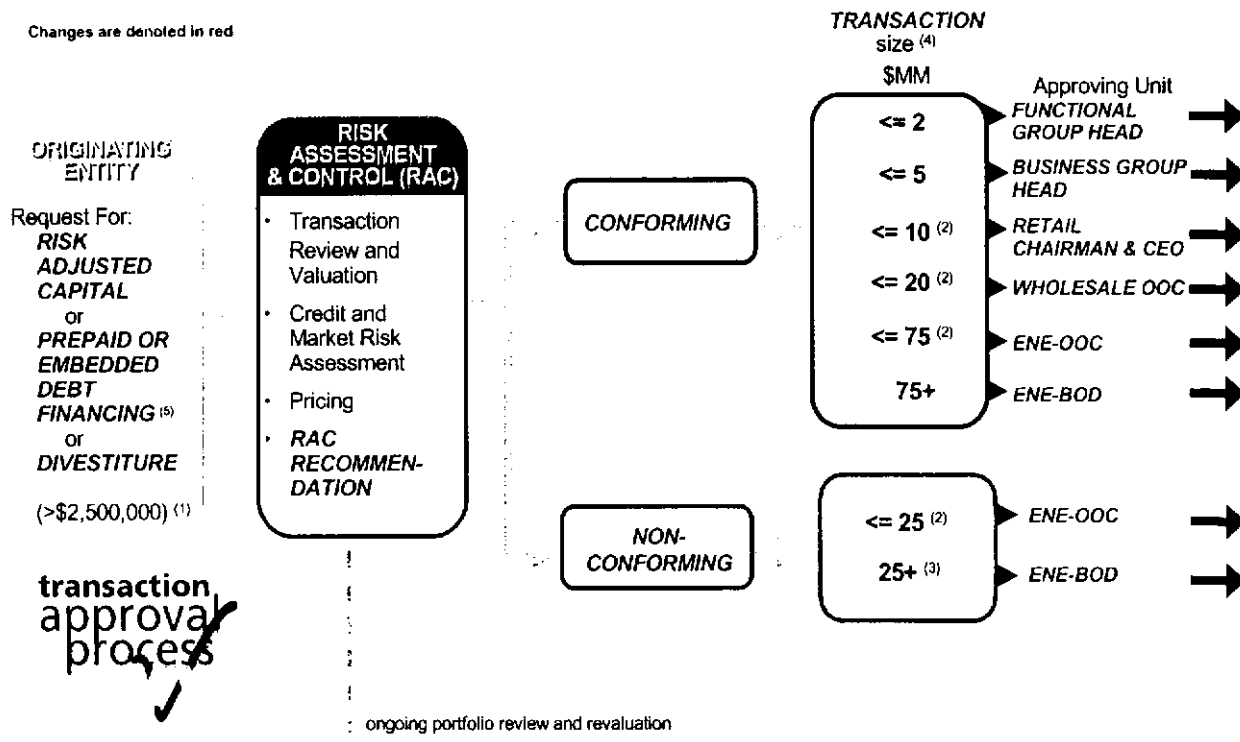
Credit Risk Management Personnel Authority	E 1-2	E 3-5	E 6-8	E 9-12
Analyst Level I	2 years	1 year	1 year	3 months
Analyst Level II	5 years	5 years	3 years	6 months
Manager	7 years	7 years	5 years	1 year
Director	10 years	10 years	7 years	3 years
V.P.	15 years	15 years	10 years	5 years
Chief Risk Officer or Office of the Chairman of Enron Corp.	Over 15 years	Over 15 years	Over 10 years	Over 5 years

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Appendix D - Transaction Approval Process

Changes are denoted in red



⁽¹⁾ Except **NON-CONFORMING** transactions and venture capital transactions not authorized by the Company's charter, for both of which the limit is \$500,000.

⁽²⁾ Deal Approval Sheets approved by the **RETAIL CHAIRMAN & CEO**, **WHOLESALE OOC** and **ENE-OOC** will be distributed to the **ENE-BOD** (Finance Committee) after approval.

⁽³⁾ Transactions deemed **NON-CONFORMING** only due to **RAC RECOMMENDATION** being "Returns Below Capital Price" will NOT require **ENE-BOD** approval if < \$75MM.

⁽⁴⁾ Merchant asset **DIVESTITURES** exceeding \$500MM and strategic asset **DIVESTITURES** exceeding \$200MM require **ENE-BOD** approval.

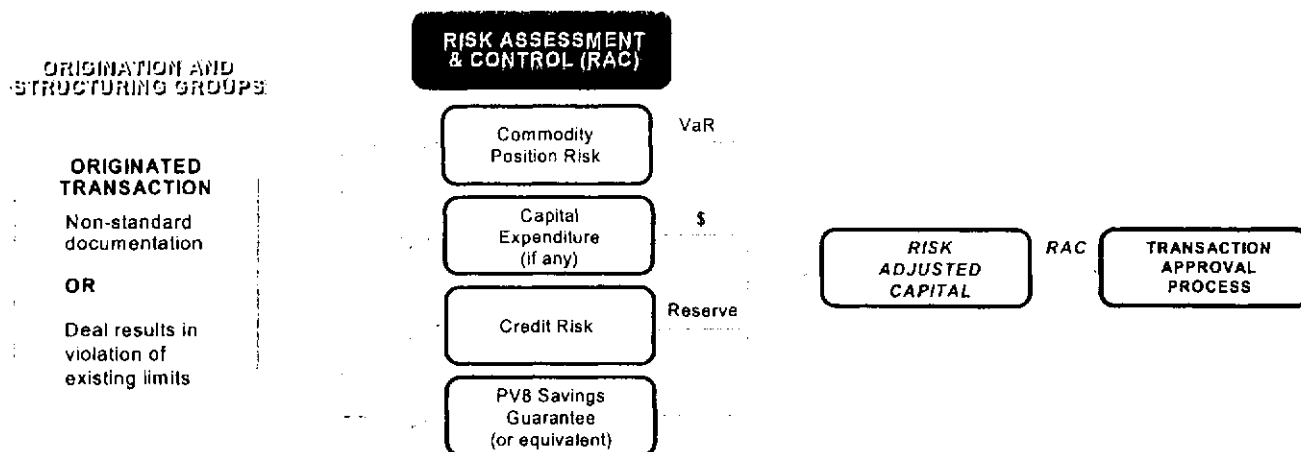
⁽⁵⁾ Transactions meeting certain criteria may be approved under the E-DASH process of the Transaction Approval Process. See page D-3.

DEFINED TERMS IN ITALICS at pages D-7 & D-8

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Appendix D - Transaction Approval Process

Approval Process for Originated Contractual Transactions



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Appendix D - Transaction Approval Process E-DASH Process ⁽¹⁾

PREPAID OR EMBEDDED DEBT FINANCING

Rating Minimum ⁽²⁾	Approval Amount and Maturity					
	<= \$10MM <= \$5MM	<= \$20MM <= \$10MM	<= \$35MM <= \$15MM	<= \$50MM <= \$20MM	<= \$75MM <= \$25MM	>\$75MM >\$25MM
AAA-/Aaa3	<= 10 years <= 7 years	<= 10 years <= 7 years	<= 10 years <= 5 years	<= 5 years	<= 5 years	DASH
AA-/Aa3	<= 10 years <= 6 years	<= 7 years <= 5 years	<= 5 years <= 4 years	<= 3 years	DASH	DASH
A-/A3	<= 7 years <= 5 years	<= 5 years <= 3 years	<= 3 years <= 2 years	DASH	DASH	DASH
BBB+/Baa1	<= 5 years <= 4 years	<= 3 years <= 2 years	<= 1 year DASH	DASH	DASH	DASH
BBB-/Baa2	<= 3 years	<= 2 years DASH	DASH	DASH	DASH	DASH
BBB-/Baa3	<= 2 years <= 1 year	<= 1 year DASH	DASH	DASH	DASH	DASH
BB-/Ba3	<= 1 year <= 6 months	DASH	DASH	DASH	DASH	DASH
B+/B1, but not lower than B-/B3	<= 6 months <= 3 months	DASH	DASH	DASH	DASH	DASH

TRANSACTION
APPROVAL
PROCESS

Example Transactions Include:

- Prepays
- Tilted swaps or other transactions where debt financing of a counterparty is embedded in a trading / risk management transaction

⁽¹⁾ Approval to be documented in an Expedited DASH ("E-DASH") and approved by **ENRON GLOBAL FINANCE, RAC**, and **BUSINESS GROUP HEADS** only.

⁽²⁾ In the case of entities split-rated by Moody's and Standard & Poor's, the lower applicable rating level shall apply (e.g., an A+/A2 counterparty is classified as A-/A3 or higher and a BBB-/Ba2 counterparty is classified as BB-/Ba3 or higher). In the case of unrated entities, the Moody's/Standard & Poor's rating equivalent to the E-rating as determined by **RAC** shall apply. Items in gray represent previous Approval Amounts and Maturities.

Appendix D - Transaction Approval Process

Approval Authority

	CONFORMING LIMIT (\$MM)	NON-CONFORMING LIMIT (\$MM)	
ENE-BOD	75+	25+	Enron Corp. Board of Directors (Executive Committee between Board Meetings)
ENE-OOC	<= 75	<= 25	Enron Corp. Office of the Chairman
WHOLESALE OOC	<= 20	N/A	Chairman & CEO President & COO
RETAIL CHAIRMAN & CEO	<= 10	N/A	Chairman & CEO
BUSINESS GROUP HEADS (WHOLESALE)	<= 5	N/A	Enron Americas President & CEO COO
			Enron Broadband Services Chairman & CEO President & COO
			Enron Europe President & CEO COO
			Enron Global Markets President & CEO COO
			Enron Industrial Markets President & CEO COO
BUSINESS GROUP HEADS (OTHER)	<= 5	N/A	Enron Global Services Chairman & CEO President & COO
			Enron Energy Services President
			Enron India CEO
			Enron Global Finance CFO
			Enron Xcelerator Chairman & CEO
FUNCTIONAL GROUP HEADS	<= 2	N/A	Enron Net Works President & CEO
			Enron Principal Investments Managing Director

The **ENE-OOC** has authority to suspend or revoke approval privileges.

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Appendix D - Transaction Approval Process Incumbency Certificate

	CONFORMING LIMIT (\$MM)	NON-CONFORMING LIMIT (\$MM)	
ENE-BOD	75+	25+	Enron Corp. Board of Directors (Executive Committee between Board Meetings)
ENE-OOC	<= 75	<= 25	Ken Lay, Mark Frevert, Greg Whalley - Enron Corp. Office of the Chairman
WHOLESALE OOC	<= 20	N/A	Vacant
RETAIL CHAIRMAN & CEO	<= 10	N/A	Dave Delaney , Chairman & CEO
BUSINESS GROUP HEADS (WHOLESALE)	<= 5	N/A	Enron Americas John Lavorato , President & CEO Louise Kitchen , COO
			Enron Broadband Services Vacant , Chairman & CEO Jim Fallon , President & COO
			Enron Europe John Sherriff , President & CEO Michael Brown , COO
			Enron Global Markets Mike McConnell , President & CEO Jeff Shankman , COO
			Enron Industrial Markets Jeff McMahon , President & CEO Ray Bowen , COO
BUSINESS GROUP HEADS (OTHER)	<= 5	N/A	Enron Global Services Stan Horton , Chairman & CEO Jim Hughes , President & COO
			Enron Energy Services Janet Dietrich , President
			Enron India Vacant
			Enron Global Finance Andy Fastow , CFO
			Enron Xcelerator Vacant
FUNCTIONAL GROUP HEADS	<= 2	N/A	Enron Net Works Greg Piper , President & CEO
			Enron Principal Investments Kevin Garland , Managing Director

The Chief Risk Officer maintains incumbency certificate with approval authority.

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Appendix D - Transaction Approval Process

Other Authorized Signatures

SIGNATURE REQUIREMENT		
RAC MANAGEMENT	All Deals	Rick Buy , Chief Risk Officer Dave Gorte , Vice President, Underwriting & Chief Underwriter
ENRON GLOBAL FINANCE	All Deals with Funded Capital ≥ \$2.5MM	Andy Fastow , CFO Ben Glisan , Managing Director & Treasurer
	Deals with Funded Capital ≥ \$2.5MM and do not require ENE-OOC or ENE-BOD approval	Tim Despain , Vice President, Finance & Deputy Treasurer Barry Schnapper , Vice President, Finance & Deputy Treasurer

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EXH064-00129

Appendix D - Transaction Approval Process Definitions

CONFORMING	<ul style="list-style-type: none"> • Routine, non-budgeted and within the general business lines of Enron • Made in an industry where Enron has established expertise • Made in a country where Enron has established a local presence and is currently conducting business • RAC RECOMMENDATION must be "Proceed with Transaction" • RAC will determine if CONFORMING
DIVESTITURES	<ul style="list-style-type: none"> • Disposal of assets (including securities)
NON-CONFORMING	<ul style="list-style-type: none"> • Outside the general business lines of Enron or in an industry where Enron has little or no expertise • Made in a country where Enron has no local expertise or where the overall exposure to the country is excessive • Made to an entity or within an industry that would result in excessive exposure to that entity or industry • Includes all transactions with RAC RECOMMENDATIONS of "Returns Below Capital Price" or "Do Not Proceed" • RAC will determine if NON-CONFORMING
PREPAID OR EMBEDDED DEBT FINANCING	<ul style="list-style-type: none"> • Maximum exposure to Enron or any affiliate as a result of a prepaid physical or derivative trading / risk management transaction, a tilted swap or other transaction where debt financing of a counterparty is embedded in a trading / risk management transaction
RAC	<ul style="list-style-type: none"> • Risk Assessment and Control group at Enron • Chief Risk Officer, responsible for RAC activities
RAC RECOMMENDATION	<ul style="list-style-type: none"> • RAC's overall recommendation on a TRANSACTION, summarized in one of the following: <ul style="list-style-type: none"> - Proceed with Transaction - Returns Below Capital Price - Do Not Proceed

Appendix D - Transaction Approval Process Definitions

RISK ADJUSTED CAPITAL

- The aggregation of exposure in a transaction that results from:
 - Capital Expenditure
 - cash outflow or commitment to make a cash outflow (examples include any form of debt or equity financing and prepaid physical or derivative trading / risk management transactions)
 - providing, directly or indirectly, a guarantee of obligations of unaffiliated third parties or of **NON-CONFORMING** obligations
 - the maximum exposure to Enron or any affiliates as a result of a tilted swap or other transaction where debt financing of a counterparty is embedded in a trading / risk management transaction
 - a commodity or financial position that results in an exposure outside of Board approved limits
 - Commodity positions
 - Credit
 - Guaranties

Such exposure translated to an equivalent amount of capital

- **RAC** will determine the components and total amount of **RISK ADJUSTED CAPITAL**

TRANSACTION

RISK ADJUSTED CAPITAL / DIVESTITURE / PREPAID OR EMBEDDED DEBT FINANCING

- Exposure reflected net to Enron, including funding vehicle exposure
- **RAC** will determine exposure

Appendix E - Guarantee Approval Process

Procedures for Approval of Financial Guarantees and Performance Guarantees

FINANCIAL GUARANTEE

A. A Financial Guarantee shall be approved as follows:

Any Subsidiary:

By the Office of the Chairman, Chief Financial Officer, the Treasurer or any Deputy Treasurer, regardless of principal amount, if the Financial Guarantee would guarantee unconditional, non-contingent payment obligations, provided that any Financial Guarantee that is a trade Letter of Credit shall be approved by any one of the foregoing officers or any Assistant Treasurer.

Any Affiliate, where Support is Equal to, or Less than, the percentage of Enron Corp.'s direct or indirect ownership:

1. By the Office of the Chairman, Chief Financial Officer, Treasurer or any Deputy Treasurer regardless of principal amount, if the Financial Guarantee would guarantee unconditional, non-contingent payment obligations, provided that any Financial Guarantee that is a trade Letter of Credit shall be approved by any one of the foregoing officers or any Assistant Treasurer.

Any Affiliate, where the amount of Support by Enron Corp. is Greater than, the percentage of Enron Corp.'s direct or indirect ownership whether expressly or through joint and several liability:

1. By the Office of the Chairman, Chief Financial Officer, Treasurer or any Deputy Treasurer and the Business Group Head (as defined in the Transaction Approval Process), if the Financial Guarantee would guarantee unconditional, non-contingent payment obligations (greater than Enron Corp.'s ownership interest) that are less than or equal to \$2,500,000 in principal amount;
2. Upon evaluation and approval of the Financial Guarantee and the related transaction pursuant to the Transaction Approval Process, a Financial Guarantee that would guarantee unconditional, non-contingent payment obligations (greater than Enron Corp.'s ownership interest) exceeding \$2,500,000 in principal amount, may be executed by the Office of the Chairman, the Chief Financial Officer, the Treasurer or any Deputy Treasurer.

Any Unaffiliated Third Party:

1. By the Office of the Chairman, Chief Financial Officer, Treasurer or Deputy Treasurer and the Business Group Head (as defined in the Transaction Approval Process), if the Financial Guarantee would guarantee unconditional, non-contingent payment obligations less than or equal to \$2,500,000 in principal amount;
2. Upon the evaluation and approval of the Financial Guarantee and the related transaction pursuant to the Transaction Approval Process, a Financial Guarantee that would guarantee unconditional, non-contingent payment obligations exceeding \$2,500,000 in principal amount, may be executed by the Office of the Chairman, the Chief Financial Officer, the Treasurer or any Deputy Treasurer.

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Appendix E - Guarantee Approval Process

B. *Amendment*

1. An amendment to a Financial Guarantee that would (a) increase the obligations of Enron Corp. under the Financial Guarantee or (b) extend the duration of the Financial Guarantee shall be approved in accordance with the rules that would apply if the Financial Guarantee and its amendment together were an original Financial Guarantee.
2. Any other amendment to a Financial Guarantee which supports the obligations of a Subsidiary or an Affiliate shall be approved by the Office of the Chairman, the Chief Financial Officer, the Treasurer or any Deputy Treasurer.

PERFORMANCE GUARANTEE

- A. A Performance Guarantee shall be approved as follows:

Any Subsidiary:

By the Office of the Chairman, Chief Financial Officer, the Treasurer or any Deputy Treasurer, regardless of amount, provided, that any Performance Guarantee that is a Trade Guarantee may be approved by any one of the foregoing officers or any Assistant Treasurer.

Any Affiliate, where Support is Equal to, or Less than, the percentage of Enron Corp.'s direct or indirect ownership:

By the Office of the Chairman, Chief Financial Officer the Treasurer or any Deputy Treasurer, regardless of amount, provided, that any Performance Guarantee that is a Trade Guarantee may be approved by any one of the foregoing officers or any Assistant Treasurer.

Any Affiliate, where the amount of Support by Enron Corp. is Greater than, the percentage of Enron Corp.'s direct or indirect ownership whether expressly or through joint and several liability:

1. By the Office of the Chairman, Chief Financial Officer, Treasurer or any Deputy Treasurer and the Business Group Head (as defined in the Transaction Approval Process), if the Performance Guarantee would support payment obligations (greater than Enron Corp.'s ownership interest) that are less than or equal to \$2,500,000 in principal amount or performance obligations that would create an estimated contingent liability less than or equal to \$2,500,000 in principal amount;
2. Upon evaluation and approval of the Performance Guarantee and the related transaction pursuant to the Transaction Approval Process, Performance Guarantees that support payment obligations (greater than Enron Corp.'s ownership interest) exceeding \$2,500,000 in principal amount, or performance obligations that create an estimated contingent liability (greater than Enron Corp.'s ownership interest) exceeding \$2,500,000 in principal amount, may be executed by the Office of the Chairman, the Chief Financial Officer, the Treasurer or any Deputy Treasurer.

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Appendix E - Guarantee Approval Process

Any Unaffiliated Third Party:

1. By the Office of the Chairman, Chief Financial Officer, Treasurer or Deputy Treasurer and the Business Group Head (as defined in the Transaction Approval Process), where the Performance Guarantee would support payment obligations less than or equal to \$2,500,000 in principal amount or performance obligations that would create an estimated contingent liability not exceeding \$2,500,000 in principal amount;
2. Upon the evaluation and approval of the Financial Guarantee and the related transaction pursuant to the Transaction Approval Process, a Financial Guarantee to an Unaffiliated Third Party that would support payment obligations exceeding \$2,500,000 in principal amount or performance obligations that would create an estimated contingent liability exceeding \$2,500,000 in principal amount, may be executed by the Office of the Chairman, the Chief Financial Officer, the Treasurer or any Deputy Treasurer.

For the purposes of this Section, in calculating the percentage of Enron Corp.'s ownership of an Affiliate, any shares of such Affiliate owned by employees, officers, directors or agents of Enron Corp. or any Subsidiary shall be deemed owned by Enron Corp.

B. Amendment

1. An amendment to a Performance Guarantee to any Affiliate where support is greater than the percentage of Enron Corp.'s ownership interest that (a) increases payment or performance obligations under the Performance Guarantee or (b) extends the duration of the Performance Guarantee, shall be approved in accordance with the rules that would apply if the Performance Guarantee and its amendment together were an original Performance Guarantee.
2. Any other amendment to a Performance Guarantee which supports the obligations of a Subsidiary or an Affiliate shall be approved by the Office of the Chairman, the Chief Financial Officer, the Treasurer, any Deputy Treasurer; provided that any such amendment to a Trade Guarantee shall require the approval of any Assistant Treasurer, any Deputy Treasurer, the Treasurer, the Chief Financial Officer or the Office of the Chairman.

PRICING

- A. Financial Guarantees and Performance Guarantees will be priced in accordance with established Risk Assessment and Control Group ("RAC") practices.
- B. Letters of Credit will be assigned a price in addition to any charges that may accrue from issuing institutions.

MISCELLANEOUS

- A. All monetary threshold approval limits referred to herein, where applicable, shall incorporate by reference any changes to the Transaction Approval Process deal approval limits as it relates to Conforming Investments.
- B. Performance Guarantees that are guarantees shall contain express monetary limits on guaranteed obligations unless otherwise approved by the Board of Directors of Enron Corp. or waived by the Chief Financial Officer or the Treasurer.

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Appendix E - Guarantee Approval Process

DEFINITIONS

Affiliate shall mean any entity in which Enron Corp. has an ownership interest less than 80%.

Financial Guarantee shall mean a guarantee issued by Enron Corp. that (a) guarantees obligations (i) for the repayment of money borrowed which are or should be shown on a balance sheet as debt in accordance with Generally Accepted Accounting Principles ("GAAP"), or (ii) as lessee under leases which, in accordance with GAAP, are capital leases, and (b) constitutes "Debt" under the definition of "Debt" in the principal credit agreement of Enron Corp.; provided, that a Financial Guarantee shall not include any letter of indemnity or other support arrangement (including, without limitation, a sponsor or parent support or performance agreement). For purposes of this policy, any letter of credit issued for the account of Enron Corp. and obligations related thereto, including, but not limited to, obligations arising under any master letter of credit agreement for any such letter of credit, shall be treated as debt.

Letter of Credit shall mean any letter of credit issued for the account of Enron Corp. and obligations related thereto, including but not limited to obligations arising under any master letter of credit agreement for any such letter of credit.

Performance Guarantee shall mean any guarantee not constituting a Financial Guarantee, any letter of indemnity or any other support arrangement (including, without limitation, any sponsor or parent support or performance agreement). For example, a guarantee of a swap agreement, swap confirmation, or master swap agreement is a Performance Guarantee.

Principal Credit Agreement of Enron Corp. shall be the U.S. \$1,750,000,000 364-Day Revolving Credit Agreement dated as of May 14, 2001, as such Revolving Credit Agreement now exists or may be amended from time to time, among Enron Corp., as Borrower, the Banks named therein, and The Chase Manhattan Bank, N.A. and Citibank N.A., as Co-Administrative Agents.

Subsidiary shall mean: (a) any subsidiary directly or indirectly 80%-owned to 100%-owned by Enron Corp., (b) any direct or indirect subsidiary of Enron Corp. if the other owners of such subsidiary hold stock in such subsidiary for the purpose of meeting legal requirements of the jurisdiction in which such subsidiary is incorporated, and (c) Enron Equity Corp., Enron Capital & Trade Resources International Corp. or any of its direct or indirect subsidiaries or any other direct or indirect subsidiary of Enron Equity Corp. or Enron Capital & Trade Resources International Corp. not 100%-owned by Enron Equity Corp. or Enron Capital & Trade Resources International Corp. if the other owners of such subsidiary collectively hold a minority ownership interest in such subsidiary that entitles them primarily only to a return of capital contributions or to share in the profits, losses, distributions, or dividends of such subsidiary and does not entitle them to participate in the operation, management or control of its business. For purposes of this policy, the right to vote by itself shall not be deemed to entitle an owner to such participation.

Trade Guarantee shall mean guarantees issued in the normal course of business by Enron Corp. to support the obligations of Enron Corp. Subsidiaries or Affiliates with respect the purchase and/or sale of physical commodities or financial transactions related to trade activities.

Transaction Approval Process provides for (a) a process of review and approval of Capital Expenditures, and (b) a process for prior transactions involving Capital Expenditures to be reviewed for performance and results (see Appendix D).

Unaffiliated Third Party shall mean any entity in which Enron Corp. has no ownership interest.

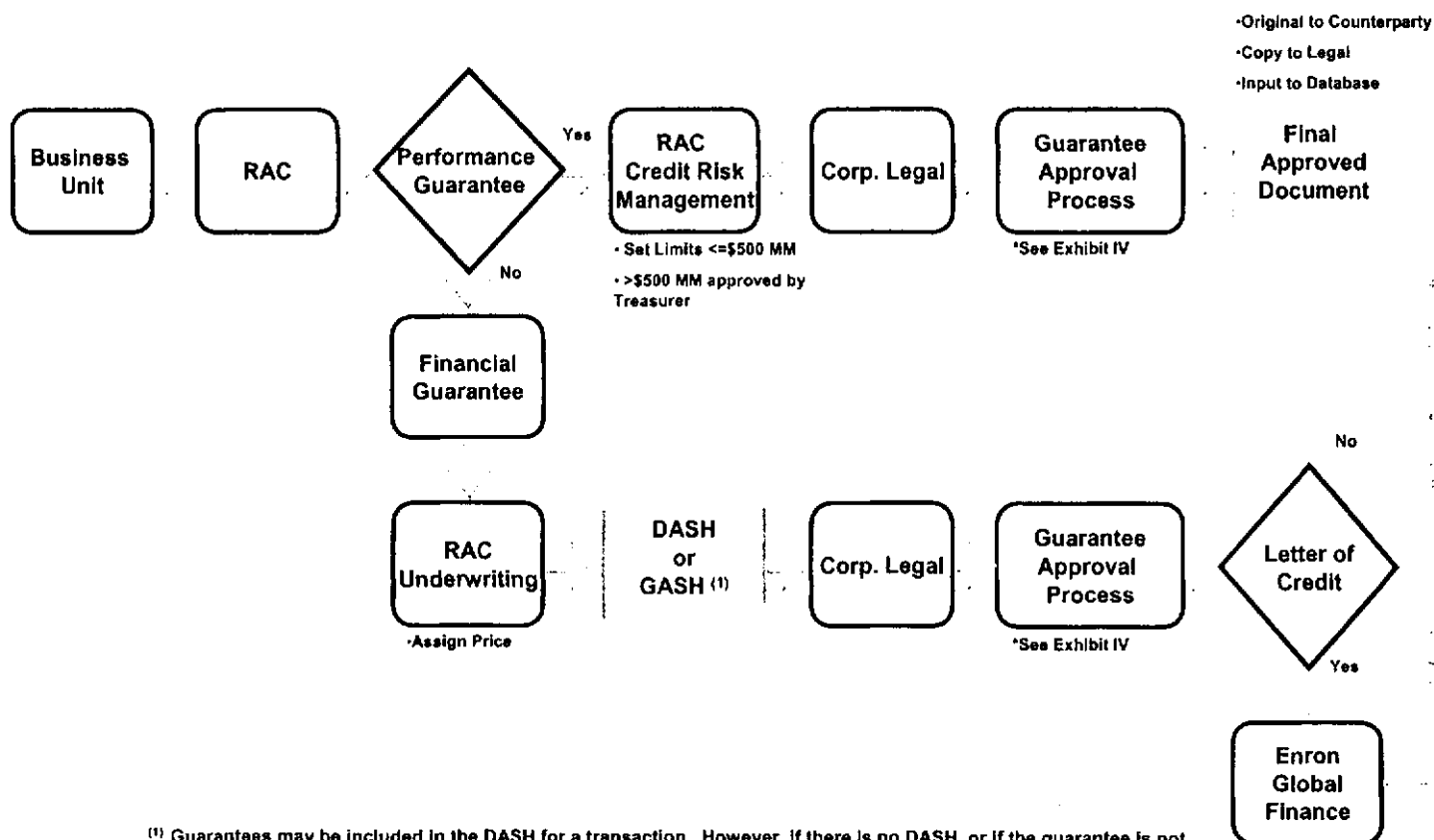
References herein to Chief Financial Officer, Treasurer, Deputy Treasurer or Assistant Treasurer shall mean the Chief Financial Officer of Enron Corp., the Treasurer of Enron Corp., the Deputy Treasure(s) of Enron Corp. or the Assistant Treasurer of Enron Corp.

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Appendix E - Guarantee Approval Process

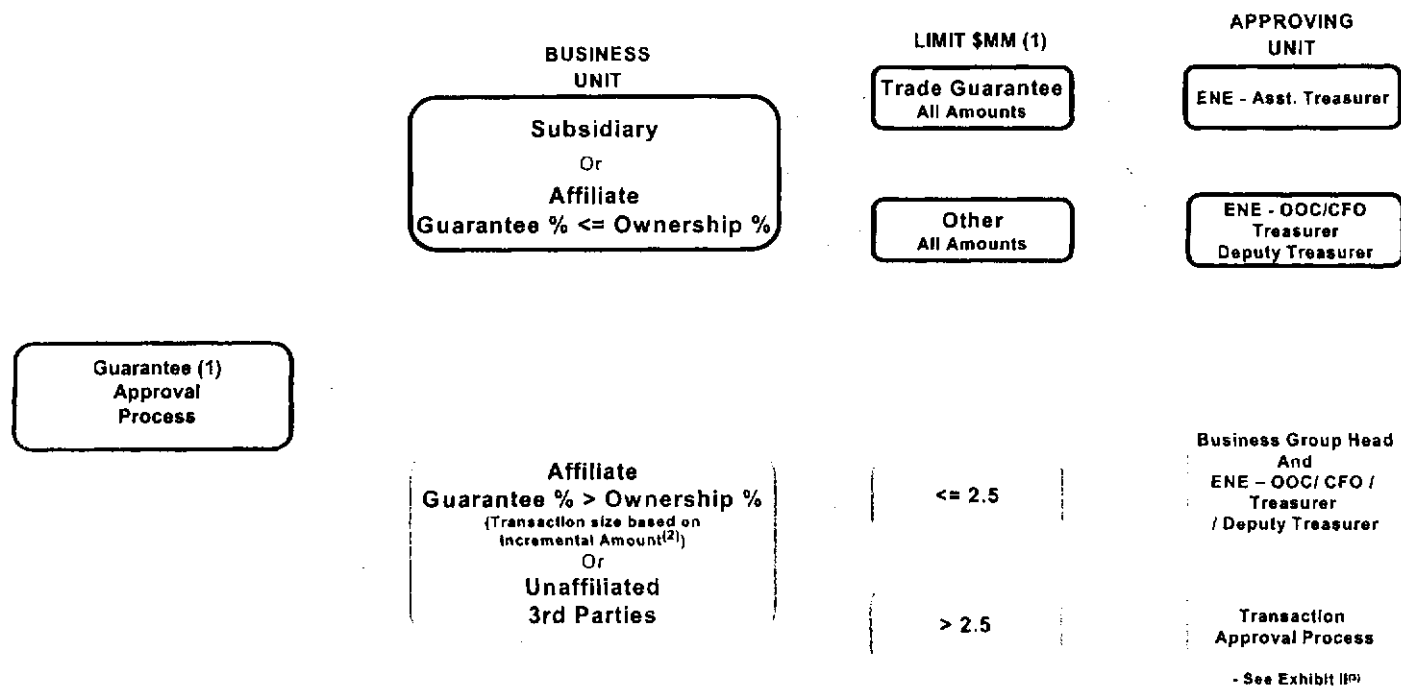
Guarantee Approval Flowchart



(1) Guarantees may be included in the DASH for a transaction. However, if there is no DASH, or if the guarantee is not incorporated in the DASH, a GASH is used. "GASH" is defined as Guarantee Approval Sheet.

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Appendix E - Guarantee Approval Process



⁽¹⁾ Limit is lessor of notional amount or P99; notional amount will always be noted on DASH or GASH.

⁽²⁾ Incremental Amount equals amount that Support > Ownership.

⁽³⁾ Authorized signatories after review and approval through the Transaction Approval Process.

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Appendix F - Fundamental Operating Standards *

Quantitative

Transactions are recorded accurately and timely (completeness, accuracy)

- Transactions are recorded with 100% accuracy and valued appropriately in an approved risk system for the applicable product
- Transactions are input into appropriate risk system on date of trade
- All trades executed on the telephone must be executed on telephones that are recorded electronically, and all trades executed over the internet must be executed with appropriate recording back up

Daily Profit and Loss position reporting is accurate and timely (completeness, accuracy)

- Reports are 100% accurate at time of issuance (no revisions)
- Daily positions and profit and loss have been approved and signed off by trading
- Reports issued on next day of trading at a commercially pre-determined time
- Trading limit violations noted and communicated to management on next day of trading

Timely confirmation and execution of transactions (completeness, accuracy, existence)

- Confirmation of all brokered trades with brokers by close of business trade date
- Confirms sent to counterparties (non-exchange) within 24 hours of trade execution and agreed to risk system data
- Confirms received from counterparties (non-exchange) within 48 hours of trade execution and agreed to risk system data
- Confirms executed with counterparty within 7 days of trade date with exceptions noted and communicated to management with the associated level of risk for non-execution (i.e. master agreement in place, number of trades unexecuted)

Settlements with counterparties occurs accurately and timely (non CACS, non Dash deals)

- Invoices/payments agree with contractual terms
- All invoices/payments sent to counterparties are resolved within 30 days of dispute date with material exceptions noted and communicated to management
- Overdue cash collections followed up with counterparties within 48 hours of due date

* These are guidelines and may be updated periodically.

EC46949A0030921

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Appendix F - Fundamental Operating Standards *

Operating system data matches risk systems and general ledger data

- Flash to actual variances and prior month adjustments cleared within 30 days of identification
- All trading general ledger accounts are reconciled and outstanding items cleared within 7 workdays subsequent to month-end

Qualitative

Establish and implement business and controls infrastructure

- Business unit head has ultimate responsibility to ensure operating standards are met (working in conjunction with GRMP and RAC)-
- Full functionality and interfaces for market risk, credit risk and corporate reporting, and/or a systems roadmap for that development
- Appropriate involvement in business for specialist services (Legal, Tax and HR)
- Sufficient resourcing both in quality and quantity for all processes
- Global databases are in place and updated to accommodate business counterparties
- Trading/origination activities and trading limits have been approved and authorized by Enron management
- Credit limits have been defined and approved and capabilities exist to monitor credit exposure by counterparty
- Transaction approval process has been defined and communicated

Define functional responsibilities across business/offices and ensure segregation for the following duties

- Execution (Commercial)
- Controls (Commercial Support)
- Review (RAC)

* These are guidelines and may be updated periodically.

Appendix G - Operational Risk Considerations *

People

- Incompetence
- Fraud
- Excessive dependence on a few top level employees
- Lack of institutional knowledge

Organizational

- Improper segregation of duties
- Lack of governance
- Operational constraints
 - Efficiency risk
 - Scalability or transaction volume risk

Process Risk

- Model risk
 - Wrong algorithm
 - Misuse of a correct model
 - Wrong inputs to a correct model
 - Control over changes to model
 - Combination of above
- Position and P&L Reporting
 - MTM error
 - Risk Books, Infinity, RisktRAC, CAS and DPR do not reflect correct positions
 - Limit Violations

Transaction Specific Risk

- Pricing error
- Execution error
- Product complexity/transaction complexity misperception
- Booking error
- Settlement error
- Documentation/contract risk
- Unexpected cost – legal or other transaction fees
- Unidentified risks

* These are guidelines and may be updated periodically.

Appendix G - Operational Risk Considerations *

Technology

- Computer system failure
- Programming error
- Communication infrastructure breakdown
- Blind acceptance of system-generated valuations

External

- Regulatory
- Legal

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* These are guidelines and may be updated periodically.

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**Appendix H - Sample Documentation of
Employee Acknowledgement of Policy**

**Enron Corp.
Risk Management Policy
Acknowledgement of Review and Compliance**

I, _____, do hereby acknowledge that I have read and understand the Enron Corp. Risk Management Policy (the "Policy"). I hereby certify compliance with such policy statement since my employment, or since I last so certified. I will continue to comply with such policy statement.

I understand that I may not engage in the trading of any position for the benefit of any party other than Enron Corp. and its subsidiaries (the "Company"), whether for my own account or for the account of any third party, where such position relates to any security, commodity, contract or derivative thereof within any Commodity Group listed in Appendix A of the Policy, except that I may trade for my own account those items included under the heading "Financials" in Appendix A with which I am not involved as part of my employment for the Company.

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Employee Signature

Date: _____

Employee Name Printed

Enron Business Unit

Any exceptions noted below:

EC46949A0030925

AGENDA ITEM 5(a)
ENRON CORP. RISK MANAGEMENT POLICY
(SUGGESTED FORM OF RESOLUTIONS)

WHEREAS, the Board of Directors of the Company approved resolutions on August 13 - 14, 2001, adopting the Enron Corp. Risk Management Policy (the "Risk Management Policy") which established a comprehensive means of evaluating, managing and controlling the Company's exposure to risk and under which capital will be allocated and preserved;

WHEREAS, the objective of the Risk Management Policy is to ensure that the Company's capital is allocated efficiently and that appropriate action is taken to preserve the Company's capital in accordance with the Company's disposition for risk;

WHEREAS, it would be in the best interest of the Company to revise the Risk Management Policy to that which is attached to these minutes and as is described therein;

NOW THEREFORE BE IT RESOLVED, that the revisions to the Risk Management Policy be, and the same hereby is, approved and adopted, in the form presented to and discussed at this meeting, a copy of which is attached to the minutes of the meeting, and that the persons, officers and approving units identified therein shall perform the responsibilities as specified therein;

RESOLVED FURTHER, that all actions heretofore taken by the Chairman of the Board and Chief Executive Officer, the President and Chief Operating Officer, the Vice Chairman, the Chief Financial Officer, the Chief Risk Officer (or his or her designee), the Treasurer or any Vice President, in the name and on behalf of the Company, related to or in connection with transactions of the type contemplated by the revised Risk Management Policy attached to these minutes but which originated prior to these resolutions, including, without limitation, the execution and delivery of any instruments or other documents as any such officer shall have deemed necessary, proper, or advisable, are hereby adopted, ratified, confirmed, and approved in all respects; and

RESOLVED FURTHER, that the Chairman of the Board and Chief Executive Officer, the President and Chief Operating Officer, the Vice Chairman, the Chief Financial Officer, the Chief Risk Officer (or his or her designee), the Treasurer, any Vice President of the Company, or any other person designated or authorized by the Board to act on behalf of the Company be, and each of them hereby is, authorized, directed (any one or them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments

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and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.

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Agenda Item 5b

EC46949A0030928

Project Southwood Georgia Pacific – Leaf River

Enron Industrial Markets

**Presentation to
Enron Corp Finance Committee
For Recommendation to the Board
of Directors**

October 8, 2001

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EC46949A0030929



Project Southwood

Why EIM Needs a Pulp Mill?

- ◆ **Market Pulp is a \$20B Global Market (\$90B including integrated pulp) with significant volatility**
- ◆ **Asset ownership increases credibility with industry players**
- ◆ **Physical supply enhances marketability of financial products**
- ◆ **EIM's ability to contract for tons has been limited to date due to lack of physical presence**
- ◆ **EIM's purchase of newsprint assets (Garden State Paper – 3rd Quarter 2000, Stadacona – 1st Quarter 2001) have had a positive effect on EIM's ability to transact business:**

	<u>Jan 01</u>	<u>June 01</u>
Trading Hubs	2	6
Total Notional Value of Trades	\$2 MM	\$70 MM
Counterparties	11	150

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EC46949A0030930

Proprietary and Confidential



Project Southwood

Georgia Pacific's Leaf River Pulp Mill

High Quality Asset

- ◆ State of the art facility; one of the largest single-line pulp mills in the world.
- ◆ Ranks 6th out of 50 North American softwood mills for lowest cash costs.
- ◆ Extremely well maintained with a history of proactive maintenance.
- ◆ Greenfield construction in 1984 - clean environmental record.
- ◆ 99% of energy produced on site with 87% of steam requirements generated from mill byproducts.
- ◆ High quality, properly incented, non-union workforce.

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Structure Mitigates Risk

- ◆ Fixed price, full requirements fiber supply contract for 7 years with Georgia-Pacific. (Fiber represents 70% of variable costs and 40% of total costs.)
- ◆ Mutually agreed upon capex budget with a 3-year risk sharing provision with Georgia-Pacific.
- ◆ EIM pulp desk pays the mill a fixed price for 50% of the physical output; floating price (based on RISI index) for the other 50%.

Separate Financial Pulp Swap Transaction

- ◆ EIM pulp desk enters into a financial pulp swap with Georgia-Pacific for 277,250 MT/yr (roughly equivalent to 50% of the mill's annual production). GP pays fixed; EIM pays floating.

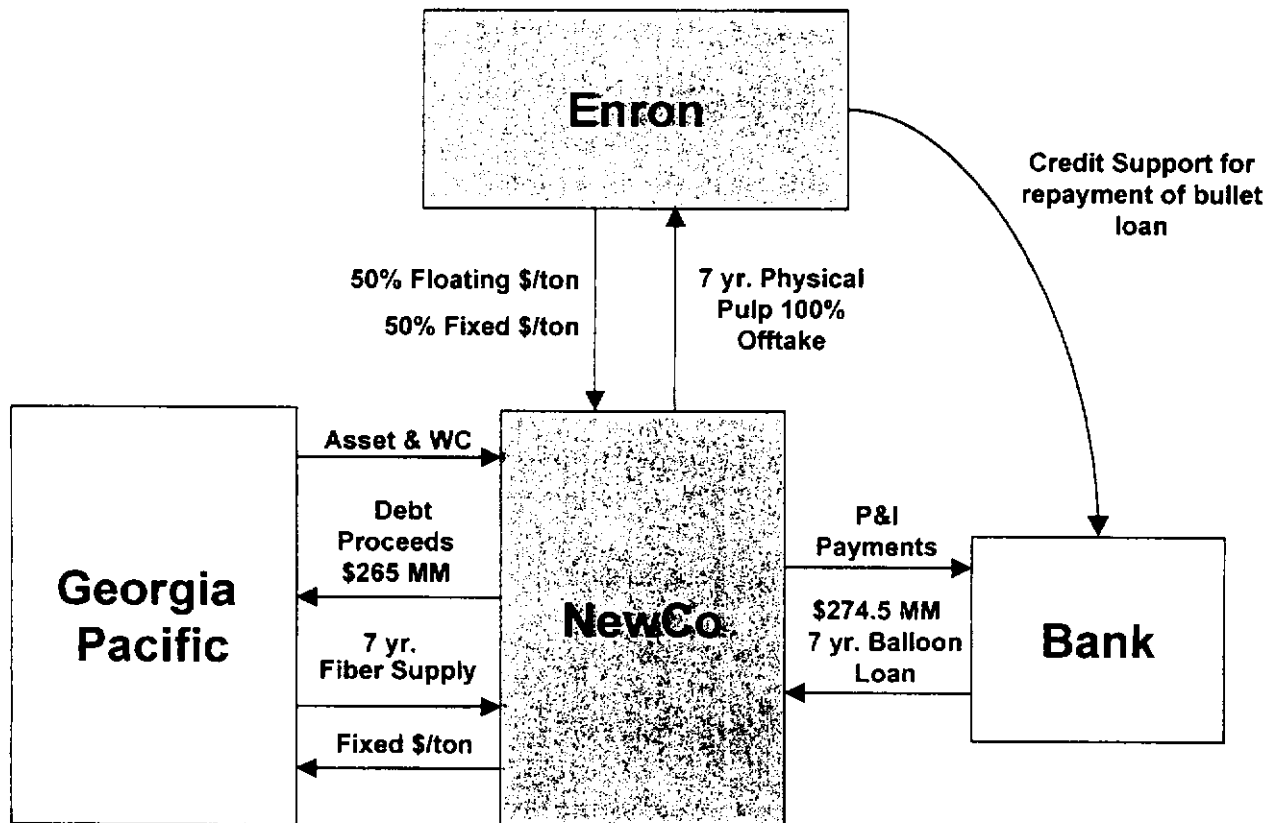
Proprietary and Confidential

EC46949A0030931



Project Southwood

Mill Purchase



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	<u>\$ Millions</u>
Cash Distribution to GP	(\$265.0)
Transaction Costs	<u>(\$ 9.5)</u>
Initial Capital Injection	(\$274.5) ⁽¹⁾
NPV @ 12.5% of Project Cashflows	\$ 145.5 ⁽²⁾
NPV @ 12.5% of Net Terminal Value	<u>\$ 113.2</u> ⁽²⁾
NPV of Mill Purchase	<u>(\$15.8)</u>

(1) A \$30 MM liquidity line will be used to offset any periodic operational cash shortfalls.

(2) 12.5% = the RAC Pre-tax Hurdle Rate

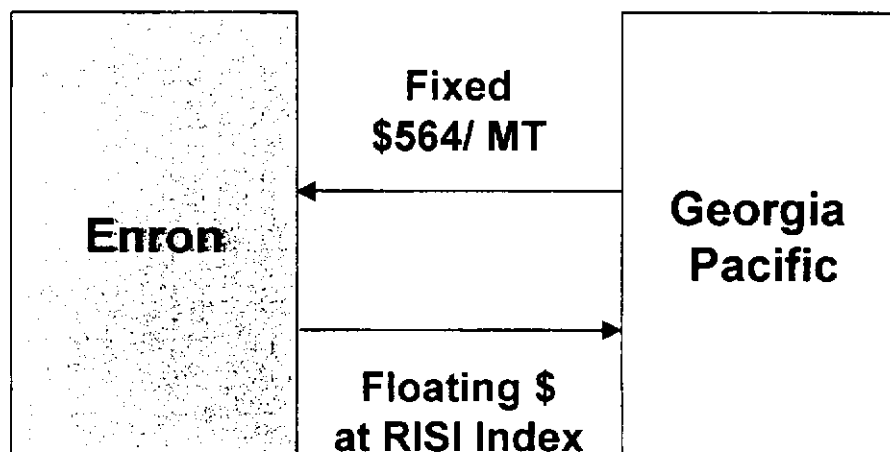
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Project Southwood

Financial Pulp Swap



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- ◆ Term: 7 years
- ◆ Notional Volume: 277,250 MT/Yr.

NPV @ 8.38% of Financial Swap	\$75.8 MM ⁽¹⁾
-------------------------------	--------------------------

⁽¹⁾ 8.38% = LIBOR + GP Credit Risk of 3.6%

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Summary Financial Results

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>EBIT</u>								
Mill	\$1,976	\$23,707	\$23,918	\$23,231	\$22,403	\$21,101	\$20,307	\$20,841
Swap	<u>\$75,755</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total	\$77,731	\$23,707	\$23,918	\$23,231	\$22,403	\$21,101	\$20,307	\$20,841

Net Income

Mill	\$57	\$3,142	\$3,276	\$2,841	\$2,317	\$1,494	\$991	\$1,329
Swap	<u>\$49,241</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total	\$49,298	\$3,142	\$3,276	\$2,841	\$2,317	\$1,494	\$991	\$1,329

Free Cashflow

Mill	\$1,376	\$2,995	\$4,397	\$3,333	\$4,450	\$3,955	\$3,039	\$3,496
Swap	<u>\$0</u>	<u>\$14,252</u>	<u>\$8,877</u>	<u>\$8,631</u>	<u>\$8,383</u>	<u>\$8,135</u>	<u>\$7,887</u>	<u>\$7,638</u>
Total	\$1,376	\$17,247	\$13,274	\$11,964	\$12,833	\$12,090	\$10,926	\$11,134

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Project Southwood

Effect on Enron Corp. Ratios

2001 Enron Corp Ratios

Earnings Per Share	\$1.80
Funds Flow Interest Coverage	4.02
Pre-tax Interest Coverage	3.31
B/S Debt to B/S Capital	43.4%

Enron Corp 2001 Base Case

Enron Ratios Including Leaf River Transaction

<u>Off B/S 100% Debt</u>	<u>Enron B/S 100% Debt</u>	<u>Enron B/S 60% Debt / 40% Equity</u>
------------------------------	--------------------------------	--

\$1.86	\$1.86	\$1.85
4.02	4.02	4.02
3.39	3.39	3.39
43.3%	43.9%	43.5%

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2002 Enron Corp Ratios

Earnings Per Share	\$2.15
Funds Flow Interest Coverage	4.02
Pre-tax Interest Coverage	3.66
B/S Debt to B/S Capital	43.4%

Enron Corp 2002 Base Case

Enron Ratios Including Leaf River Transaction

<u>Off B/S 100% Debt</u>	<u>Enron B/S 100% Debt</u>	<u>Enron B/S 60% Debt / 40% Equity</u>
------------------------------	--------------------------------	--

\$2.15	\$2.15	\$2.15
4.04	3.99	4.02
3.68	3.62	3.65
43.4%	44.0%	43.5%

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Project Southwood

Valuation Context

Pulp Prices

- ◆ RISI 10-year Historical Average is \$546/MT
- ◆ RISI 7-year Average Forecast is \$556/MT
- ◆ EIM Valuation uses \$516/MT over the 7-year term

Acquisition Price

- ◆ Mill was built in 1984 for \$560 MM
- ◆ Mill replacement cost today is approximately \$1.0 Billion
- ◆ GP asking price was \$350 MM
- ◆ EIM is paying \$274 MM

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Terminal Value

- ◆ Current Transaction Multiples are 3.3X Peak EBITDA
- ◆ Enron Purchases Leaf River Mill at 2.13X Peak EBITDA
- ◆ Terminal Value assumes 2.00X Peak EBITDA

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ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

NEW DEAL

DEAL NAME: SOUTHWOOD Counterparty: Georgia-Pacific Business Unit: Enron Industrial Markets Business Unit Originator: George McCormick Industry: Industrial-Paper & Allied Products This Transaction: Private Strategic Non-Conforming	Date DASH Completed: September 21, 2001 RAC Underwriter: Chip Schneider RAC Analyst: Adam Pollock/Andre Cangucu Transaction Type: Equity - Private Capital Funding Source: Off Balance Sheet-On Credit Country: United States Expected Closing Date: September 28, 2001 Expected Funding Date: November 30, 2001
--	---

RAC Recommendation: <input checked="" type="checkbox"/> Proceed with Transaction <input type="checkbox"/> Do not Proceed	<input checked="" type="checkbox"/> Returns below Capital Price
--	---

Board Approval: Pending

APPROVAL AMOUNT REQUESTED (\$000s)

Capital Commitment	274.5M
Liquidity Line between Enron-Sundance/LRPM	30.0M
TOTAL	\$ 304.5M

* The Liquidity Line is provided to fund additional cash required to offset periodic operational cash shortfalls. The expected total nominal payment over 7 years is \$11.1 million (PV \$6.2 million). The nominal P95 calculated amount is \$29.8 million (PV \$13 million).

EXPOSURE SUMMARY (\$000s)

This Transaction	274.5M
Existing Exposure	0.0M
TOTAL	\$ 274.5M

* EIM will be required to buy-out GP's equity interest in the mill (see description and formula below). Fluctuations in the calculated value of GP's equity are driven largely by commodity prices. The expected nominal payment in 2008 is \$2.2 million (PV \$1 million). The nominal P95 amount calculated for 2008 is \$19.8 million (PV \$9 million).

DEAL DESCRIPTION

Enron Industrial Markets ("EIM") is seeking approval for the acquisition of a supermajority (96%) interest in the Leaf River Pulp Mill ("LRPM") in New Augusta, Mississippi, for \$274.5 million (asset cost of \$265.0 million + financing/closing costs/contingency of \$9.5 million). Additionally, an agreement is sought to structure the acquisition to defer the recognition of a taxable gain (the "Deferral Agreement" is valued at approximately \$45 million) to Georgia-Pacific for a seven-year term. Georgia-Pacific ("GP") is divesting itself of its market pulp operations as part of a strategic shift away from commodity-like products and toward consumer products with "brand" value. The alignment of Enron's goal to develop a more liquid commodity market and GP's strategic goal of moving further down the value chain presents Enron with an opportunity to obtain a world-class asset with a reasonable return risk/return profile.

The Leaf River pulp mill has an annual production of 554,500 MT of market pulp. The asset is capable of producing both Southern Bleached Softwood Kraft (SBSK) and Southern Bleached Hardwood Kraft (SBHK) pulp. The mill was built in 1984 for a cost of \$560 MM by Great Northern Nekoosa Corporation. In 1990, GP acquired the mill and has owned and operated the mill since that time. The asset is one of the largest single-line production pulp mills in the world. Jacobs-Sirrine's Q1 2001 database lists Leaf River as the 6th lowest among 50 North American pulp producers and as having the 2nd lowest cost basis among 13 producers of Southern Bleached Softwood Kraft (SBSK) pulp in North America. The mill employs 341 non-union, salaried employees. The estimated replacement cost of the mill is \$1 billion.

The transaction will enable EIM, via a JV structure, to indirectly control LRPM. To facilitate the structure, an LLC ("Newco") owned 96% and 4%, respectively, by EIM (through Sundance) and GP will be formed. GP will contribute the Leaf River mill valued at \$265 million including working capital valued at \$52MM. EIM will contribute credit support for debt financing of the asset, as well as capital, operations, personnel and marketing services. GP and EIM will share the net cash flow from Newco's operations pro-rata to their respective percentage interests. GP will receive a \$265 million cash distribution at closing and a 4% share of membership interest in the LLC. EIM will have operational control of the facility and 96% of the economics during a 7-year term. At the end of 7 years, Enron will buy-out GP's 4% interest at $5.0 \times \text{EBITDA less Net Debt}$ (EBITDA calculated using a 5-yr historical average). EIM will have the ability to terminate the joint venture before the end of seven years by paying GP a stipulated "make-whole" premium to compensate GP for its loss in tax deferral benefits. The calculation of this payment will be agreed upon in the documents.

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The acquisition will be financed primarily with debt having recourse to Enron. Any principal repayment will trigger a tax liability for GP (which tax reduces the value of the Deferral Agreement proportionally by the amount of such principal payment in relation to the total initial principal amount). Thus, Newco will seek a seven-year non-amortizing loan from a 3rd party lender. Newco's debt will be backed by Enron credit support. In order to preserve the value of the Deferral Agreement to GP, GP will wrap the loan and Enron credit support with a guaranty of its own. From an economic perspective, Enron has not structured the transaction on the assumption that such GP credit support will be called upon. GP will, however, be granted a springing lien on the assets of the LLC if their credit support/guaranty is called upon to the extent that GP performs on such obligation. In accordance with the springing lien concept, EIM will agree to maintain the asset in good condition consistent with industry standards in order to preserve the collateral value of the asset for GP in the event they are called upon to perform under the guaranty.

Industry

Pulp represents 30% of the \$300 billion/year global market for forest products (larger than any other pulp/paper product). Market Pulp represents 6% (\$20 billion/year) of this global market. End uses for softwood kraft pulp include everything from printing and writing paper to tissue products and boxboard. Softwood kraft pulp is also an input for other major paper products such as newsprint. The rationale for the proposed acquisition is to accelerate EIM's strategy to develop its physical and financial trading and market-making activities in the pulp market. Enron currently owns no pulp assets and seeks to "touch" at least 500,000 MT of pulp capacity this year. With the acquisition of LRPM, ENE will control 1.3% of global market pulp capacity.

The Leaf River mill produces a SBSK pulp that is known for its high brightness, low dirt content and consistent quality. By owning the Leaf River asset, the EIM pulp book will own 100% of the mill's SBSK physical output – estimated to be 554,500 MT/year. EIM will also assume GP's existing off-take sales contracts.

The Leaf River mill uses three types of pinewood furnish as inputs to the pulp making process – tree length roundwood, short roundwood and chips. These fiber costs represent 70% of Leaf River's variable costs and 40% of the mill's total operating costs. GP will provide all the necessary fiber inputs to Newco at a fixed price for seven years. Under the agreement, GP will provide up to 2.5 million rough green short tons of roundwood per year at a price of \$24.68 per rough green ton and up to 1 million green short tons of chips per year at a price of \$27.13 per green short ton. Newco will not be permitted to purchase fiber from any other party unless requirements exceed these limits.

GP and Enron will agree on a 3-year capital expenditure budget that supports the forecasted level of production (554,500 MT/year). Excess expenditures will be split 50/50 between GP and Enron, up to an agreed-upon annual cap. Enron will pay any capital expenditures exceeding the cap. Similarly, if the CAPEX budget for each year is not spent in its entirety, the remainder will be split 50/50 between GP and Enron.

Currently, the Leaf River mill's output production capacity is limited by the mill's chemical (liquor) recovery and refining capacity. Historically, GP has exchanged liquor with other area GP mills in order to "de-bottleneck" the Leaf River mill. As part of the proposed transaction, GP will enter into a liquor swapping agreement with NewCo. Under this arrangement, GP will provide white liquor (unused refined chemicals) to the Leaf River mill. In exchange, the Leaf River mill will provide equivalently valued black liquor (used unrefined chemicals) to GP, which has other mills in the vicinity with excess chemical recovery capacity.

TRANSACTION SOURCES AND USES OF FUNDS (\$000s)

	<u>Sources</u>		<u>Uses</u>
Sundance	274.5M	Plant Acquisition	265.0M
Enron Balance Sheet Sources	0.0M	Contingency	5.0M
		OBS Financing Fees	2.7M
		Transaction Costs	0.8M
		Cash Balance	1.0M
Total	<u>\$274.5M</u>		<u>\$ 274.5M</u>

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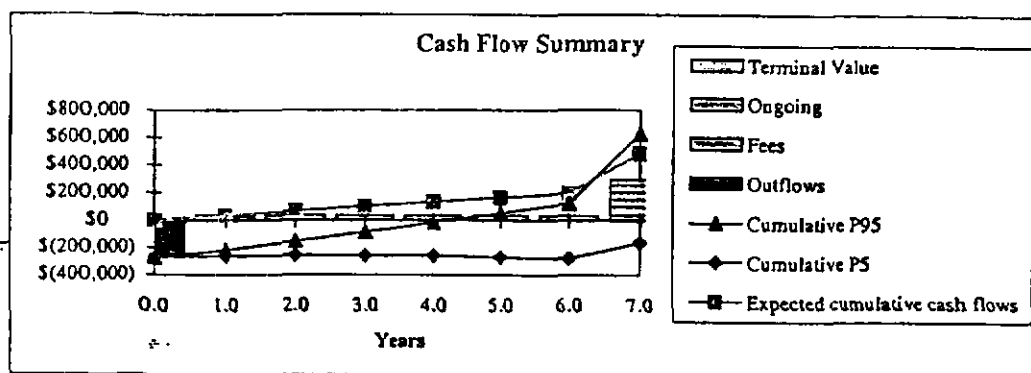
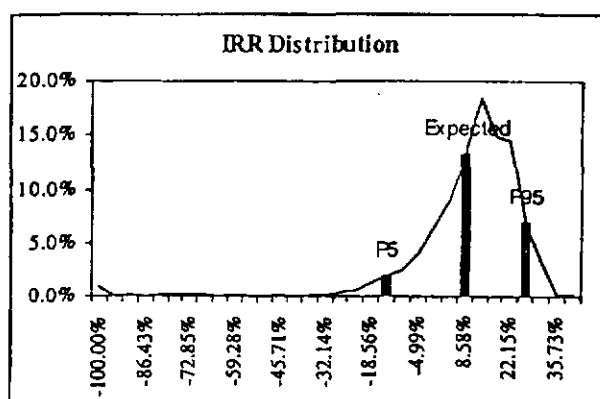
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RETURN SUMMARY (\$000s)

Unlevered

Return Components:	PV @ Capital Price	Cumulative IRR	Capital Price Components	
Purchase Cost	-274,458	-	Risk free rate (%):	6.83
Operating Cash Flows	151,569	- 4.99%	Equity Premium (%):	5.02
Shortfalls	-6,116	-100.0%	Credit Premium (%):	0.00
Buyout Fee	-971	-100.0%	Country Premium (%):	0.00
Terminal Value	114,183	11.20%	Transaction-Specific (%):	0.65
Total NPV	-\$15,793	11.20%	RAC CAPITAL PRICE:	12.50

CASH FLOW SUMMARY



TRANSACTION UPSIDES/OPTIONALITY

The strategic benefits of owning a supermajority interest in this asset (access to physical pulp, increased liquidity, incremental market-making opportunities, incremental origination opportunities) cannot be easily quantified and have not been included in the purchase price analysis.

The asset valuation model assumes that the mill will produce 554,500 MT of SBSK per year. EIM's technical due diligence team estimates that the mill is capable of producing 573,250 MT of SBSK per year. Additional production capacity could have a positive impact on the mill's profitability.

EIM may sell the mill, pay the "make whole" premium to GP (which amount will be determined in a manner that preserves the present value of GP's initial approximate \$45 million tax deferral value stemming from the Deferral Agreement), and negotiate an offtake agreement with the new owner. Thus, EIM would retain a long SBSK position while eliminating operational risk and freeing up capital.

The plant is located in the SERC service territory and has land available for additional power generation facilities.

EXIT STRATEGY

This is a strategic investment with a contemplated seven-year holding period. Earlier sale will be allowed with a "make-whole" provision (the consequences of which are described above) and a buy-out of GP's equity interest.

RISK MATRIX

RISK DESCRIPTION	MITIGATION/COMMENTS
Operating Risk <i>NewCo may be exposed to hidden integration and/or transition costs</i> <i>Enron lacks pulp mill operating expertise</i>	<p>Corporate overhead expenses have been accounted for in the asset valuation model. ENE due diligence teams are comfortable that Accounting, IT and Human Resources integration issues have been addressed. Additionally, the due diligence and transition teams include EIM personnel that managed the transition and integration of Garden State and Stadacona.</p> <p>EIM intends to keep the existing mill management team and employees. The mill workforce is a highly skilled, non-union, properly compensated team that has a proven track record of performance improvement. EIM is rapidly expanding its asset management expertise given experience with existing newsprint assets.</p>
Credit / Market Risk <i>By entering into a seven-year fiber supply agreement, Enron is taking on GP performance risk.</i> <i>NBSK is the industry standard pulp grade. EIM may be exposed to market risk by taking a position in a commodity that is NOT the industry benchmark.</i>	<p>The EIM pulp book will own 100% of the mill's SBSK production (554,500MT).</p> <p>The mill is trading fiber price volatility for GP credit risk and fiber procurement risk. GP perceives economic value for the fiber supply agreement and therefore has incentive to perform according to the terms of the agreement. GP has a BBB-/Baa3 credit rating. The contract will not have liquidated damages.</p> <p>SBSK is a lower value alternative to NBSK for many end-uses and thus, is sold at discount to NBSK (historically @\$40/MT, or 7% discount). In addition to this market discount, we have included an additional \$23/MT (11% total) discount to our forward curve in the valuation of this asset. SBSK pricing is highly correlated with NBSK. SBSK represents 43% of annual US pulp production.</p>
Environmental / Permitting Risk <i>As is the case with most industrial plants, potential exists for litigation or environmental compliance issues associated with the asset.</i>	<p>Environmental due diligence is being performed by ENE, EHS, external legal counsel (Vinson & Elkins) and third party technical consultants (Pilko & Associates, Inc.). These efforts have uncovered no material issues. EIM continues to negotiate with GP to obtain coverage for post-closing discoveries as well as appropriate credit support of the seller's ability to meet such liabilities.</p>
Legal Risk	<p>Legal Risk Rating has not been finalized. The diligence investigation, including labor, environmental, tax and liabilities to be assumed is still underway. No "deal-breaker" issues have been uncovered. Documentation relating to the creation of Newco, its capitalization and operations is in early stages. In addition, there are multiple ancillary agreements regarding power, transportation, fiber supply and by-product off-take, among others, that must be addressed. A legal risk memo will be prepared after resolution of all of these outstanding issues.</p>

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Tax Risk	EIM will acquire effective ownership of LRPM through a partnership/joint venture arrangement that enables GP to avoid current payment of tax on approximately \$245 million in taxable gain that would otherwise result from an outright purchase by EIM of LRPM. GP avoids payment of such tax only so long as the debt arrangement contemplated (i.e., GP remains a JV member and provides the above-described credit support) remains in place, the JV does not dispose of LRPM, and the principal on the loan is not paid before maturity. The present value of GP's tax deferral is approximately \$45 million, assuming a seven-year deferral period. Consequently, GP has required (and EIM has agreed) that EIM pay GP the present value of the lost tax deferral benefit in the event that EIM causes a tax liability for GP.
Other <i>The mill has a QF rating on its cogeneration</i>	ENE Regulatory is currently investigating whether 1) Enron/Sundance can own a QF and 2) whether Enron/Sundance could sell power to an adjacent 3 rd party that is a non-utility.

KEY SUCCESS FACTORS (relative sliding scale)

	NA	Poor	Excellent
Core Business			X
Strategic Fit			X
Upside Potential		X	
Management			X
Risk Mitigation			X

OTHER RAC COMMENTS

The Leaf River Pulp Mill is a relatively new plant, built on a green-field site, employing modern technology and methods.

RAC is applying to the terminal value a 30% liquidity discount (35% Base case less 5% control adjustment) to adjust to uncertainties arising from the marketability and liquidity of this type of asset seven years from now.

Preliminary findings from RAC due diligence reveal no major issues related to finance and operations (management/staff, planning/budgeting, financial reporting, internal controls/systems, etc.)

CONDITIONS PRECEDENT

Final execution of the PSA is subject to EIM and RAC satisfaction with the following:

1. EIM has secured off-balance sheet debt financing for substantially all of the purchase price
2. EIM has entered into employee agreements with key mill personnel
3. ENE counsel has confirmed that no pending legal actions or proceedings have been instituted or threatened by the closing date
4. All transaction documentation will be formalized between EIM and GP
5. EIM will have completed its due diligence efforts related, but not strictly limited to the following items:
 - Perry County Municipal Bonds
 - Capital Budgeting Plan
 - Insurance Policy

MILESTONES

1. Execution of a PSA
2. Receipt of regulatory approvals, as appropriate
3. Report of mill operations to RAC
4. Buyout of GP's 4% interest

09/28/01
11/30/01
Quarterly beginning 04/30/02
12/31/08

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APPROVALS

	Name	Signature	Date
EIM Corp Development	Andy Kelemen/George McCormick		9/21/01
EIM Technical Services	Eric Connor		9/21/01
ENE Environmental, Heath and Safety	Michael Terraso		9/21/01
EIM Accounting	Kent Castleman		9/21/01
EWS Legal	Mark Haedicke/Julia Murray		9/21/01
EWS Tax	Stephen Douglas		9/21/01
EIM OOC	Jeff McMahon/Ray Bowen		9/24/01
RAC Management	Rick Buy/Dave Gorte		24 September 2001
ENE Global Finance	Andy Fastow/Ben Glisan		9-27-01
ENE OOC	Ken Lay/Mark Frevert/Greg Whalley		9-27-01

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FASH
DEAL NAME: Project Southwood

Global Finance Summary (Addendum to DASH)

1. Transaction Summary for INVESTMENT:	Amount
Total Deal/Project Capital Commitment	\$274.5m
Less: Financings (including Syndications)	<u>\$274.5m</u>
Net Enron Investment	\$0

(a) Capital commitment information is based on:

Acquisition price of \$265m plus a \$1m initial cash balance and plus \$8.5m in Financing Costs and Legal Fees.

(b) Any intent to Syndicate? How much? Intent to take investment off-balance sheet?

We need to syndicate \$274.5m in debt. We believe we can syndicate this with approximately 10 different banks (\$27m each) via a club bank approach.

The investment will be acquired via Sundance Industrial Partners, LP ("Sundance"), a deconsolidation vehicle for Enron Industrial Markets, and accounted for under "Investments in and advances to unconsolidated equity affiliates". Enron owns 50% of the voting rights of Sundance and 80% of the economics (net economics of approximately 95% via contractual arrangements).

(c) Likely Syndication market:

- | | |
|---|--|
| <input type="checkbox"/> Industry/Strategic Partner | <input type="checkbox"/> Private Equity |
| <input type="checkbox"/> Capital Markets | <input type="checkbox"/> Off-balance sheet vehicle |
| <input checked="" type="checkbox"/> Bank Markets | <input type="checkbox"/> Other |

(d) Additional information:

The asset acquisition has to be financed with 100% non-amortizing debt since this enables Georgia Pacific to defer their capital gains tax on the asset sale for the term of the debt (agreed to seven years).

2. Investment (i.e. equity) terms and pricing:

For Enron:	<input type="checkbox"/> Market	<input type="checkbox"/> Above Market	<input type="checkbox"/> Below Market
For Third Parties:	<input checked="" type="checkbox"/> Market	<input type="checkbox"/> Above Market	<input type="checkbox"/> Below Market

Additional Information:

Salomon Smith Barney (SSB) is EIM's partner in Sundance and will have to contribute \$68.75m of capital to the structure. Of this \$68.75m, \$10.5m will be funded and \$58.25m will be an unfunded commitment. Salomon Smith Barney's preferred return for both funded and unfunded commitment over the funded capital equates to Libor + 6.7%.

SSB's investment recapitalizes Sundance but is not intended to reduce the \$274.5m in support from Enron via the Total Return Swap/Put option.

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3. **Financing (i.e. debt) terms and pricing:**

☒ Market

☐ Above Market

☐ Below Market

Describe Risk Transfer, if any:

No risk transfer, 100% recourse to Enron.

The investment will be financed 100% with debt supported through a combination of a TRS/Put option from Enron. The debt will be deconsolidated as a result of the ownership by Sundance. Further, the TRS/Put option support by Enron will be accounted for as a price risk management liability and is expected to be marked at approximately \$0.

We are assuming the debt would be priced around 137.5bps over Libor (based on the pricing of the EOTT financing). The financing term will be either a three-year loan with an option to refinance for four more years, or a straight seven-year bullet depending on cost and on how interested banks are on the term.

4. **Describe liquidity restrictions, if any, for equity and/or debt:**

There would be no liquidity restrictions for either equity or debt since Sundance will control the asset and the debtholders will have recourse to Enron, not to the asset.

5. **What type of continuing involvement will Enron have relating to the debt?**

Since the asset will be levered to 100% of the acquisition cost, Enron will have to support the debt. Most likely a Put/Total Return Swap will be used for this purpose

6. **Intent to Hedge Investment? NO Explain:**

7. **How long does Enron expect to own this investment?**

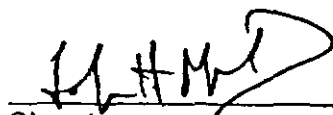
The rationale for the proposed acquisition is to accelerate EIM's strategy to develop its physical and financial trading and market-making activities in the pulp market. Therefore the purpose is to acquire pulp volumes for trading purposes, thus whenever EIM has an opportunity to sell the asset at an attractive value (while keeping the physical off-take) the asset will be sold.

Enron Global Finance Representative:


Signature

William Brown 09/24/01

Enron Global Finance Legal:


Signature

Jordan H. Mintz 09/24/01

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Page C

ENRON RISK ASSESSMENT AND CONTROL DEAL APPROVAL SHEET

APPENDIX

BACKGROUND

GP is a manufacturer and distributor of building products and a producer of a variety of pulp and paper products including pulp, containerboard, packaging and tissue products. The company's FY2000 revenues were \$22 billion. As of September 10, 2001, GP had a market capitalization of \$7.4 billion. The company is headquartered in Atlanta. GP is rated BBB-/Baa3 by S&P/Moody's with a stable outlook.

In Autumn 2000, GP attempted to package three assets together (Leaf River; Woodland, Maine; and Brunswick, Georgia) in an effort to sell their pulp business to a single buyer. At that time, GP received no binding bids for the assets. In March 2001, GP and EIM resumed discussions for purchase/sale of just the Leaf River mill. GP's original asking price for the mill was \$350 million. While the purchase price of \$265 million represents a significant decrease in value from their initial expectations, the proposed deal structure stemming from the Deferral Agreement (the value of which equals approximately \$45 million). The proposed purchase price compares favorably to recent transactions in the forest products industry, as shown below.

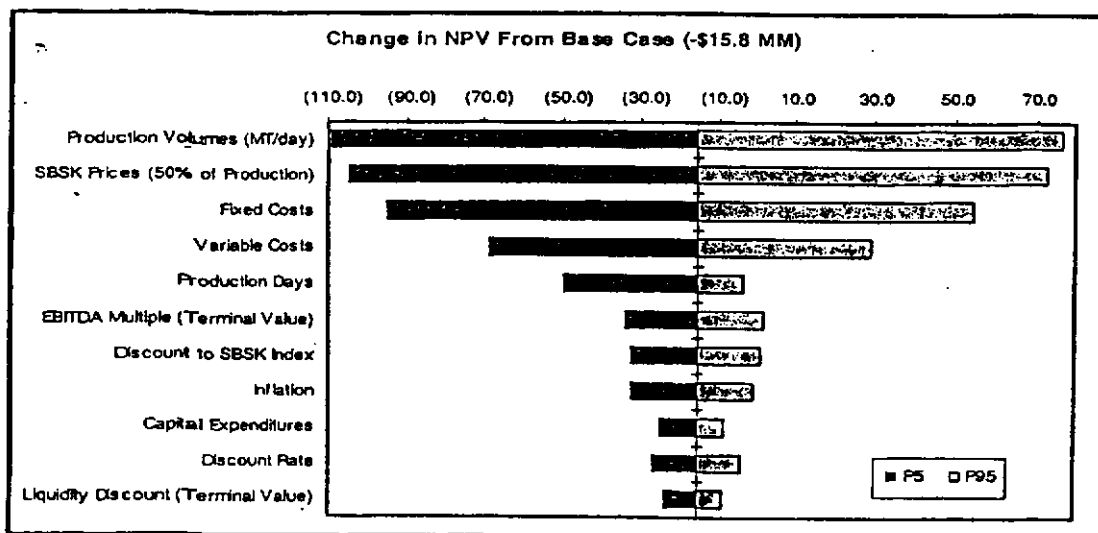
GP COMPARABLE TRANSACTION ANALYSIS (US\$ millions for EV)

Company	Date	EV	EV/ Ton	EV/ EBITDA	EV/ Sales	Other
Stadacona	Jan-00	\$ 370	\$ 719	3.56	1.35	Enron acquired Daishowa Forest Products Canadian newsprint and groundwood mills
Norske Skog- Tasman	Mar-01	\$ 128	\$ 456	3.24	0.49	Carter Holt Harvey (IP) acquired Tasman pulp mill in New Zealand
Alliance Forest Products	Apr-01	\$ 766	\$ 640	7.62	1.09	Sale of newsprint, SBHK fluff pulp and uncoated groundwood mills to Bowater
Heindl	May-01	\$ 2,632	\$ 1,385	9.66	2.96	UPM-Kymmene purchased 4 newsprint mills in Germany and Austria
Norske Skog- Mackenzie	Jun-01	\$ 104	\$ 452	3.32	0.96	Pope&Talbot acquired a Canadian NBSK pulp mill
GP Paper	Jun-01	\$ 1,650	\$ 1,031	6.00	1.32	Dorstar acquired 4 uncoated paper and market pulp mills
Celgar	Aug-01	\$ 254	\$ 599	5.01	1.23	Enron proposed acquisition of a Canadian NBHK pulp mill
Average		\$ 843	\$ 755	5.49	1.34	
Leaf River	Nov-01	\$ 265	\$ 478	2.16	0.91	Current proposed transaction

* EBITDA and Sales data are based on FY2000 results

** Comparables in bold represent "pure" pulp transactions

VALUATION SENSITIVITY ANALYSIS



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		NPV Variance (\$millions)		
Assumption		Base Case	P5	P95
Production Volumes (MT/day)	NPV	1,716.0	1,574.9	1,857.1
		(15.8)	(109)	77
SBSK Prices (50% of Production)	NPV	519.5	432.8	606.3
		(15.8)	(105)	73
Fixed Costs	NPV	100.0%	117.0%	84.0%
		(15.8)	(95)	55
Variable Costs	NPV	100.0%	126.0%	77.0%
		(15.8)	(69)	29
Production Days	NPV	355.0	344.5	358.9
		(15.8)	(50)	(4)
EBITDA Multiple (Terminal Value)	NPV	5.5	4.6	6.4
		(15.8)	(34)	2
Discount to SBSK Index	NPV	10.0%	13.0%	7.0%
		(15.8)	(33)	0
Inflation	NPV	2.6%	5.5%	0.0%
		(15.8)	(33)	(1)
Capital Expenditures	NPV	100.0%	136.0%	71.0%
		(15.8)	(25)	(9)
Discount Rate	NPV	12.5%	13.5%	11.5%
		(15.8)	(27)	(4)
Liquidity Discount (Terminal Value)	NPV	30.0%	35.0%	25.0%
		(15.8)	(24)	(9)
NPVs for each assumption are calculated individually				

AGENDA ITEM 5(b)
(SUGGESTED FORM OF RESOLUTIONS)

WHEREAS, the Executive Committee of the Board deems it advisable and in the best interests of the Company for Enron North America Corp. ("ENA") or an affiliate or designee thereof, to form a limited liability company (the "LLC") with Georgia Pacific Corporation or affiliates or designees thereof and contribute assets thereto in an amount not to exceed \$275,000,000 for the purpose of acquiring, owning, and operating the Leaf River Paper Mill in New Augusta, Mississippi, as well as providing a \$30,000,000 liquidity line mentioned in the deal approval sheet for the transaction, on the terms and conditions presented to the Executive Committee (the "Leaf River Transaction");

WHEREAS, the Executive Committee of the Board deems it advisable and in the best interests of the Company that approvals be granted, as set forth below, in connection with the Leaf River Transaction;

NOW, THEREFORE, IT IS RESOLVED, that Kenneth Lay, Chairman and Chief Executive Officer of the Company, and L. Greg Whalley, President and Chief Operating Officer of the Company, be, and hereby are, authorized on behalf of the Board, jointly and severally, to:

- (a) settle and approve the terms and authorize execution on behalf of the Company or its affiliates of all agreements to be executed in connection with the Leaf River Transaction, including an LLC Operating Agreement, a Contribution Agreement, and such additional documents, agreements, guaranties, and other instruments relating to the Leaf River Transaction undertaken or proposed to be undertaken by the foregoing resolutions, and obligating the Company and its affiliates in an amount not to exceed \$275,000,000, as well as providing a \$30,000,000 liquidity line mentioned in the deal approval sheet for the transaction, as may be required or necessary in order to enable the Company and its affiliates to fulfill their respective

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obligations in connection with the foregoing resolutions;

- (b) pay or authorize the payment of all fees, expenses, or charges incurred by or on behalf of the Company or its affiliates in connection with the transactions contemplated by the foregoing resolutions, including (but without limitation) the fees and expenses of the Company's and its affiliates' financial, legal, and professional advisers; and
- (c) take any and all such further action as they shall deem necessary or desirable in connection with the transactions contemplated by the foregoing resolutions;

RESOLVED FURTHER, that Mr. Lay, any Vice Chairman of the Board, Mr. Whalley, any Managing Director, or any Vice President (including any Executive Vice President, Senior Vice President, or Vice President), the Treasurer or any Deputy Treasurer of the Company and its counsel, acting on the approval of Mr. Lay and Mr. Whalley, jointly and severally, be, and each hereby is, authorized, empowered, and directed (and any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company or its affiliates, under their respective corporate seals or otherwise, and to pay all such expenses as in their discretion appear to be necessary or desirable to carry into effect the purposes and intentions of this and each of the foregoing resolutions; and

RESOLVED FURTHER, that all actions heretofore taken by the officers and representatives of the Company and ENA or its affiliates with respect to the transactions contemplated above be, in all respects, approved, confirmed, and ratified.

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Agenda Item 6

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Other Business

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Agenda Item 7

Adjourn

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Agenda

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2. Chief Financial Officer Report	Mr. Fastow	2-1
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Quarterly Risk Update		
- Audit & Compliance and Finance Committee Roles		4-2
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A) Revision to the Risk Management Policy	Mr. Buy	5A-1
- Approve for Recommendation to the Board		
B) Project Southwood	Mr. McMahon	5B-1
- Approve for Recommendation to the Board		
6. Other Business		6-1
7. Adjourn		7-1

See Addendum for Deal Approval Sheets approved between Board meetings

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